EFFECTIVE USES OF AGRICULTURAL ABUNDANCE FOR HUNGER RELIEF

HEARING

BEFORE THE

SELECT COMMITTEE ON HUNGER HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

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CONTENTS

	Page
Hearing held in Washington, DC, September 20, 1984	1
Statement of:	
Bloch, Julia Chang, Assistant Administrator, Food for Peace and Voluntary Assistance, U.S. Agency for International Development, USAID	19
Denlinger, Nelson, executive vice president, U.S. Wheat Associates, Inc	31
Emerson, Hon. Bill, a Representative in Congress from the State of Missouri, opening statement of	7
Fondahn, Robert D., president, Fondahn & Associates, Inc	33
Freeh, LaVern A., vice president, International Development and Governmental Affairs, Land O'Lakes, Inc	49
Goldberg, Richard W., Deputy Under Secretary, International Affairs and Commodity Programs, U.S. Department of Agriculture, accompanied by Bob Laird, administrator, Food Nutrition Service, Consumer Services and George J. Pope, Foreign Agricultural Service	9
Hall, Hon. Tony P., a Representative in Congress from the State of Ohio, opening statement of	7
Harrison, Lawrence, vice president, International Development, Cooperative League of the USA	54
Healy, Patrick B., chief executive officer, National Milk Producers Federation	29
Leland, Hon. Mickey, a Representative in Congress from the State of Texas, opening statement of	1
Lemov, Michael R., executive director, Food Research and Action Center, FRAC	66
Lipsky, Michael, professor of political science, Massachusetts Institute of Technology, accompanied by Marc Thibodeau, research associate	70
Melcher, Senator John, a U.S. Senator from the State of Montana	1
Roukema, Hon. Marge, a Representative in Congress from the State of New Jersey, opening statement of	6
Shelton, Carl, executive director, Self Help and Resource Exchange, SHARE	47
Prepared statements, letters, supplemental material, et cetera:	
Bloch, Julia Chang, Assistant Administrator, Bureau for Food for Peace and Voluntary Assistance, U.S. Agency for International Development:	
Prepared statement of	91
Promoting food policy reform	25
Responses to questions submitted by Hon. Mickey Leland	21
Denlinger, Nelson, executive vice president, U.S. Wheat Associates, Inc., prepared statement of	109
Emerson, Hon. Bill, a Representative in Congress from the State of Missouri:	
"The Dairy Production Stabilization Act of 1983: A Progress Report," CRS, August 1, 1984	139
"USDA's Commodity Inventory," CRS, revised, September 17, 1984	124
Fondahn, Robert D., president, Fondahn & Associates, Inc., prepared statement of	115
Freeh, Dr. LaVern A., vice president, International Development and Governmental Affairs, Land O'Lakes, Inc., prepared statement of	161
Hall, Hon. Tony P., a Representative in Congress from the State of Ohio and chairman, International Task Force on Hunger, prepared statement of	86
Harrison, Lawrence, vice president, International Development, Cooperative League of the USA, prepared statement of	166

Prepared statements, letters, supplemental material, et cetera—Continued

Healy, Patrick B., chief executive officer, National Milk Producers Federation: Page
- Letter to Chairman Leland, dated September 26, 1984 107
- Prepared statement of 101

Lemov, Michael R., executive director, Food Research and Action Center, FRAC:
- "Hunger in Montgomery County: Update of 1983 Survey," report entitled 190
- "Hunger in the Midst of Plenty in Montgomery County, Over 20,000 Seek Emergency Food in 1983," report entitled 184
- Prepared statement of 170

Lipsky, Dr. Michael, professor of political science, Massachusetts Institute of Technology:
- "Federal Surplus Commodity Distribution to Households and Individuals: A Preliminary Assessment," report entitled 200
- Prepared statement of 195
- Responses to questions submitted by Hon. Mickey Leland 75

Panetta, Hon. Leon E., a Representative in Congress from the State of California, prepared statement of 88

Reagen, Michael V., Ph.D., commissioner, Iowa Department of Human Services, letter to Vivian Gabor, dated October 22, 1984, enclosing testimony 217

Roukema, Hon. Marge, a Representative in Congress from the State of New Jersey, prepared statement of 82

Shelton, Rev. Carl, executive director, Self Help and Resource Exchange, SHARE, prepared statement of 153

EFFECTIVE USES OF AGRICULTURAL ABUNDANCE FOR HUNGER RELIEF

THURSDAY, SEPTEMBER 20, 1984

HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE ON HUNGER,
Washington, DC.

The Select Committee on Hunger met, pursuant to notice, at 9:45 a.m., in room 2212 Rayburn House Office Building, Hon. Mickey Leland (chairman of the committee) presiding.

Members present: Representatives Hall, Hightower, Daschle, Gejdenson, Britt, Roukema, Emerson, Gilman, and Smith.

OPENING STATEMENT OF HON. MICKEY LELAND, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

The CHAIRMAN. We have a very long agenda today. To expedite our time, as soon as Senator Melcher comes forward, we are going to ask the Senator to make his statement and then my colleagues and I will make our opening statements.

Senator Melcher, thank you for coming here today. We appreciate your commitment to hunger-related issues and particularly with your recent work assisting us with the legislation Congressmen Hall and Hightower on the Appropriations Committee, have introduced regarding international health.

We certainly appreciate your gallant efforts there as well as your work concerning section 416 authority, Senator Melcher.

STATEMENT OF SENATOR JOHN MELCHER, A U.S. SENATOR FROM THE STATE OF MONTANA

Senator MELCHER. Mr. Chairman, and members of the committee, let me first of all thank you for this opportunity to share with you some of my thoughts. And let me congratulate you and congratulate the House on the formation of the Select Committee on Hunger.

There is nothing more vital than the proper forum and the proper background for bringing to the attention of Congress and the attention of the public the questions of hunger, both here in the United States and abroad.

We have a blessing in surplus agriculture commodities in America and we also have a problem on how wisely and prudently we use these surplus commodities.

It is really a puzzle, a dilemma, that the mountains of agricultural surplus commodities in the United States are not used for the alleviation of problems of world hunger and malnourishment. In

parts of the world hunger and malnourishment conditions are not improving, but seem to be getting far worse, particularly in Africa.

At the outset let me state to the committee my basic philosophy in regard to surplus agricultural commodities: To produce food is a virtue and a blessing. To withhold food from those in need is a sin.

We seem to lose sight of the fact that the whole history of civilization is the history of man acquiring the capacity to feed more than himself and his immediate family. Without the capacity of the farmer and the livestock producer to feed some multiple of himself, there can be no cities, no industry, and ultimately no art, literature, music, or all of the other elements that we consider essential to the whole concept of civilization.

We are all ready to accept the view that man does not live by bread alone. But surely, we must recognize that without bread man does not live at all.

Food production is one area in which the United States truly excels. Our agricultural production is the best in the world in quality, quantity, and price. And we do have the lowest production costs as well. Not only do we excel in production, we have the finest distribution system in the world. And we do have adequate Federal nutrition programs if we are not careless, heartless, or thoughtless in using them expeditiously.

There are serious pockets of hunger and malnourishment in the United States. These are areas that clearly come within the jurisdiction of this committee and merit your closest scrutiny. Nonetheless, the majority of Americans are blessed with the freshest, most wholesome, and best variety of meats, vegetables, dairy products, and fruits at far lower costs than anywhere else in the world. Currently, food prices are running at 16 percent of all disposable income in the United States. No other country even comes close.

Unfortunately, this bounty is not a universal picture. Parts of the world endure famine, and there is widespread malnutrition with at least 1 billion people around the globe on low-protein diets.

It is this disparity between our capacity to produce food, the food that is so much here in abundance, and our capacity to assure that nutritional needs here and abroad are adequately met that leads people to question as to whether we have an agricultural policy at all. If we have an agricultural policy, it clearly fails to provide for sale of our surplus food products or for humanitarian relief for the world's malnourished that would benefit America's farm economy and our conscience as well.

Let me come back to my basic philosophy. There is nothing wrong in accentuating the positive. Production of agricultural products is very positive. What is negative is the lack of a sound policy to assure sales, donations, barter, or other mechanisms for the provision of food to the hungry and malnourished.

We seem to lack the imagination to set up concessionary sales—that's time payment sales at reduced prices—for the hungry, malnourished people of friendly countries that need our surplus foods. What is wrong with helping our neighbors south of the Rio Grande; for example, with selling some of the surplus dry powdered milk or wheat at whatever the Mexicans pay in their devalued peso compared to our high interest valued strong dollar? What's wrong with letting some of the hungry have milk or flour or cornmeal to eat

and some feed grains so they can have a few chickens or pigs, or maybe even feed a milk cow of their own? Isn't that better than Payment in Kind, the PIK Program, which is not growing anything on millions of acres of farmland that are idle every year as a result of Government programs that pay billions of dollars to farmers not to produce?

I might add that this is not the farmers choice. This is contrary to their basic philosophy, because farmers like to farm, ranchers like to ranch. This concern, over an adequate policy that would recognize the need to match up the economic need of American farmers and ranchers with the nutritional need of hungry people around the world, has led me to spend considerable time examining our current approach to food aid. We have had Food for Peace laws or similar laws on our books longer than the average age of all Americans. These laws, by and large, have been very successful. These laws do represent a good, decent instinct on the part of all Americans and have worked—as far as they go.

Unfortunately, as is often the case, these programs seem to have gotten a bit hidebound. It seems difficult for a program to preserve and maintain its youthful vigor. A program that has been around for a long time does not always seem to have the same degree of enthusiasm that it might have had at an earlier stage in its existence. And it does collect stifling regulations over the course of time. Consequently, we must constantly be on the alert for new ways to deal with old problems.

It was that concern that led me to look at the section 416 program. Although 416 has actually been around for a long time, its principal impact has long been on domestic food programs. It has only recently been applied to foreign food aid programs, and that application was strictly restricted to use of dairy surpluses.

For more than 18 months, I have been talking to a large number of concerned groups including private voluntary organizations, such as CARE, Catholic Relief Services, Cooperative League of USA, World Church Services, Bread for the World and others, as well as commodity groups such as the National Milk Producers Federation and the National Association of Wheat Growers, concerning ways that the 416 program might be expanded and revitalized so that our use of American surplus agricultural commodities could be broadened at the same time that we also expand our commitment to a better and broader humanitarian approach to meeting food needs abroad.

In addition, I have also talked to potential recipients of 416 aid, particularly in Mexico and the Philippines. These conversations have taken place both here in Washington and in Mexico City and in Manila. In every case I have found the PVO's, the commodity representatives, and the Governments receptive to the idea that we should look to ways to make the 416 program more usable as a complement to the existing Public Law 480 Food for Peace Program.

As a result, I introduced S. 2477, the Surplus Food Commodities Trade and Donation Act of 1984. More importantly, on March 22, 1984, I introduced a floor amendment to H.R. 4072, the farm bill curtailing grain deficiency payments. This amendment, which was

adopted, provided the essential ingredients of S. 2477 in improving the 416 program.

Specifically, it provides the inclusion of wheat as well as dairy products in 416; monetization of the commodities made available under 416; expedited procedures in processing food aid applications; and multiple year programming of 416 proposals.

I am very pleased that this was adopted and signed into law by the President on April 10 of this year. However, as we all know, frequently enactment of legislation, even with the signature of the President, represents a small step in the actual implementation of the program carrying out the intent of the legislation.

Actual implementation of section 416 is carried out by AID under a memorandum of understanding with the Department of Agriculture. The actual regulations for carrying out the memorandum of understanding for section 416 have just been finalized. Obviously, the law signed on April 10 will require that the new provisions under my proposals will have to be taken into consideration. Equally obviously, these concepts contained in my amendment are not wholely new ideas that have not been under previous consideration.

Somewhat over 5 months have passed since the amendment was signed into law as a part of the Agricultural Programs Adjustment Act. During that time, I have had frequent meetings with representatives of various PVO's urging them to apply for food aid programs under the new, improved 416 program. I still encourage that. I have also met with the Ambassadors of Mexico and the Philippines for the same purpose—and with the Deputy Secretary of the Department of Agriculture, Richard Lyng, and with Under Secretary for International Affairs and Commodity Programs, Daniel Amstutz, and AID Administrator, Peter McPherson. I have urged speeding up the process of expediting the applications so we can go forward. As of today, 163 days have passed since my amendment was signed into law. To say that I am unhappy that there has not been more progress is an understatement.

This is a lost opportunity to provide humanitarian food aid to starving people and help reduce surplus agricultural commodities, and thus help American farmers and ranchers. Those who need food need it now, not 5 months from now. It is a grand opportunity for the United States to establish food aid, wise use of food for friendly countries, as an important part of our foreign policy, for a betterment of our relationship with a tremendous number of countries throughout the world.

Further, I am distressed that my conversations with officials of the administration lead me to believe that this program may only be used at minimal levels. For example, I have been told that the proposed regulations would across the board prohibit monetization of wheat because of potential displacement of commercial sales.

I might add that, coming from a wheat producing State, we producers in Montana—and I'm sure throughout the country—are very much interested in this program. They want to farm. They want to produce wheat. And they want to know that it satisfies the needs of people here and abroad.

It certainly is not the intention of the law to displace commercial sales that would otherwise occur. And my original bill, S. 2477, in-

cludes specific language to that effect. However, I find it hard to believe that the administration would implement an across the board prohibition against wheat, and feel strongly that is not the intent of my amendment at all.

In short, I am feeling increasingly frustrated that there seems to be foot dragging, or at least excessive slowness, in proceeding to implement the new 416 program. Further, I find myself feeling like the man who has offered the administration a gift horse only to find them looking in its mouth. Section 416, to my mind, represents a very real opportunity to implement a policy that can bridge a gap between excessive production capacity in this country and unmet food and nutrition needs around the world.

I hope that 416 will become one of the programs that the House Select Committee on Hunger examines, and hope that you will join with me in an effort to see that this program is administered in a vigorous and effective manner.

Mr. Chairman, I read over the list of your witnesses today and you will have testify today a great number of the key players and representatives of all the groups that I have been working with here in this country. And I am sure you will find, from their testimony, some pertinent information, and hopefully a sound endorsement of your purposes and the purposes of this committee, and what I believe to be the purposes of all the people of this country. Produce the food, use it where it is needed, here first in this country to satisfy hunger and malnutrition, and then use it around the world to alleviate the malnourishment problems of those that are indeed very much in need of the great blessing that we have here—abundance of food.

The CHAIRMAN. Thank you very much. I have no questions.

I would like to commend you and say that the committee is looking into section 416 authority.

Senator MELCHER. Thank you very much.

The CHAIRMAN. Are there any other questions?

Mrs. ROUKEMA. I would like to thank the Senator and simply state that you have certainly were delineated the problem. I thank you.

The CHAIRMAN. Thank you very much, Senator.

Ladies and gentlemen, today the Select Committee on Hunger will explore the relationships between the agricultural abundance of the United States and reaching the hungry, both at home and abroad. The farmers of the United States are renowned for their efficiency and productivity.

The U.S. Department of Agriculture estimates that this year's wheat crop will be 68.8 million tons. Uncommitted dairy surpluses have reached the level of 2.3 billion pounds. The cost to the Federal Government, for storage and handling of the noncommitted dairy surpluses, is $52.7 million per year.

We recognize that the agricultural abundance and the existence of some surplus commodities do not automatically convert themselves into programs or resources to meet the needs of the hungry of the world. Farmers don't work for nothing. The Congress and the administration must work together to make resources available to purchase commodities from the farmers, to explore innovative and creative ways to utilize surpluses already purchased, and to

ensure proper management and streamlining of administrative procedures.

Surpluses already purchased by the Commodity Credit Corporation must be effectively utilized and managed. Programs utilizing the surpluses must take into consideration the needs of the recipient and the costs of delivering surplus commodities to the needy. New and innovative approaches designed to more effectively utilize surplus commodities must be explored.

Dumping commodities is not the answer. It doesn't help the needy and may have an adverse effect on food prices. Food aid programs, both at home and abroad, must be keenly aware of the dangers of dependency and disincentives to production.

We have asked a rather diverse group of individuals today to testify before us. We are glad to have had Senator Melcher join us and address the key issues related to section 416 of the Agriculture Act.

We also have very distinguished witnesses from the administration and the private sector. The specific programs that we will examine are the domestic use of section 416 commodities under the Temporary Emergency Food Assistance Program and the foreign commodity programs, such as Public Law 480, section 416, the Wheat Reserve and Export Credit Programs.

We have a full agenda and an important challenge before us.

I would now like to recognize Mrs. Roukema, the ranking minority member of the Select Committee on Hunger. Mrs. Roukema has worked effectively to bring to congressional attention, and particularly to this select committee's attention, the paradox of abundant agricultural production coexisting with extreme hunger.

This hearing is one result of her discussions with the select committee. I recognize now the ranking minority member, Mrs. Roukema.

OPENING STATEMENT OF HON. MARGE ROUKEMA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mrs. ROUKEMA. Thank you, Mr. Chairman.

I have an extensive number of opening remarks, but I'm going to ask unanimous consent that they be inserted in the record.

The CHAIRMAN. Without objection, they will be.

[The prepared statement of Mrs. Roukema appears at the conclusion of the hearing, see p. 82.]

Mrs. ROUKEMA. I would just like to make the suggestion that both Senator Melcher, as well as your own opening statement, have delineated the problem for us. The statistics are staggering, in terms of the numbers of dollars—millions and billions of dollars—that are put into food aid and agricultural subsidies. Yet, the numbers are equally staggering in terms of the shortfall in meeting the problems.

Mr. Chairman, you referred to the paradox of hunger. It is a paradox. It's a paradox that we must all address, both from the economic or economics of agriculture point of view, which we have testimony on here today, as well as from a humanitarian perspective, which has also been alluded to.

With that, Mr. Chairman, I would thank you and look forward to hearing from the witnesses.

The CHAIRMAN. I thank the gentlelady. Mr. Hall.

OPENING STATEMENT OF HON. TONY P. HALL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. HALL. Mr. Chairman, I have a statement and I would ask that it be made part of the record.

The CHAIRMAN. Without objection.

[The prepared statement of Mr. Hall appears at the conclusion of the hearing, see p. 86.]

Mr. HALL. And I want to formally thank Senator Melcher for his sponsorship of the primary health care bill in the Senate, in which many of us on this committee are so vitally interested.

The CHAIRMAN. Mr. Emerson.

OPENING STATEMENT OF HON. BILL EMERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. EMERSON. Thank you, Mr. Chairman.

The hearing today concerns a topic for which I have a great interest, as a member of the Agriculture Committee and as one who represents a district that produces a wide variety of food and fiber. Some of you may remember that the Agriculture Committee reported a bill last year, H.R. 1590, sponsored by the gentleman from California, Mr. Panetta, and myself.

The most important purpose of that bill was to provide surplus Government-owned commodities to those in need. Our subcommittee held hearings around the country and observed firsthand that many Americans were in need of additional nutritional assistance. Many witnesses, including religious leaders, United Way representatives, local elected officials, and other representatives of charitable organizations, urged us to provide food commodities to States and localities, rather than to let them sit there in storage.

H.R. 1590 was the vehicle to accomplish this. The bill required the Secretary of Agriculture to provide surplus commodities that are not otherwise needed for foreign and domestic commitments to emergency feeding centers and otherwise were the recipients, such as schools, elderly feeding centers, and Veterans' Administration hospitals.

It provided limited administrative funding to enhance program operations and established priorities for receipt of commodities and administrative funding among the various recipient organizations. Enactment resulted in a more comprehensive and efficient program of commodity distribution.

We had no intention of establishing a permanent program. We believe that authorization of this 2-year program will respond to the current situation where there is a surplus of commodities and a demand for them. This program is needed as a temporary supplement of ongoing programs. Eventually, it was Public Law 98–92 that initiated many of the measures contained in H.R. 1590. That law mandated operation of a commodity distribution program for 2 years, required the Secretary of Agriculture to distribute—without charge or credit—all available price-supported commodities ac-

quired by the Commodity Credit Corporation, not committed for another use, to eligible recipient agencies.

The Secretary would have discretion to determine what quantities of commodities are in excess of those needed for other commitments. The Secretary would be expected to make maximum use of the Nation's agricultural abundance.

Representatives from the USDA will testify as to the uses the Secretary has made of surplus commodities. I am sure the witnesses will discuss the unprecedented distribution level of surplus commodities to individual households totaling over 1.5 billion pounds since January 1982.

These commodities include 820 million pounds of processed cheese, 154 million pounds of cheddar cheese, 300 million pounds of butter, 50 million pounds of cornmeal, 18 million pounds of rice, 92 million pounds of nonfat dry milk, 65 million pounds of honey, and 61 million pounds of flour.

This is distribution to individual households only and does not include surplus commodities distributed for any of the other programs, such as the School Lunch Program and the elderly feeding programs. Nor does it include any of the surplus commodities distributed overseas.

I hope all the witnesses will discuss not only the surpluses of commodities but the effect of distribution of these commodities on the budget, on the marketplace, on the foreign countries receiving them, on our exports, and on the people receiving these benefits.

I yield to no one in my concern for the hungry people around the world. The United States is a very generous country. We have heard of this generosity last week in our hearing on Africa. And if we are observant, we can see our generosity on a daily basis. However, we must be very careful with our generosity, that we do not create individuals and countries who become dependent and cannot provide for themselves, at least in part.

Additionally, it does cost the American taxpayer to give away surplus commodities. Commodities must be processed and packaged into forms suitable for use by those receiving them. They must be transported and they must be stored. All of this, and more, costs money.

I would like for each of our witnesses to comment on these issues. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Let the record reflect at this juncture that Mr. Panetta, who could not be here at this time, had a formal statement to include in the record. Let the record show Mr. Panetta's statement without objection.

[The prepared statement of Mr. Panetta appears at the conclusion of the hearing, see p. 88.]

The CHAIRMAN. Mr. Hightower.

Mr. HIGHTOWER. I have no comments.

The CHAIRMAN. Mr. Smith.

Mr. SMITH. No, thank you.

Mr. DASCHLE. Mr. Chairman, I have no questions, either.

The CHAIRMAN. Mr. Britt.

Mr. BRITT. No comments, Mr. Chairman.

The CHAIRMAN. Mr. Gejdenson.

Mr. GEJDENSON. Nothing, sir.

The CHAIRMAN. I thank my colleagues for their cooperation.

We may now begin with our witnesses. We have Mr. Richard Goldberg, who is Deputy Under Secretary of International Affairs and Commodity Programs, U.S. Department of Agriculture.

Mr. Goldberg, thank you for coming and responding so readily. We welcome your testimony.

STATEMENT OF RICHARD W. GOLDBERG, DEPUTY UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY BOB LAIRD, ADMINISTRATOR, FOOD NUTRITION SERVICE, CONSUMER SERVICES, AND GEORGE J. POPE, FOREIGN AGRICULTURAL SERVICE

Mr. GOLDBERG. Mr. Chairman and members of the committee, let me express my appreciation at being here today and introduce on my right, Bob Laird, who is Administrator, Food Nutrition Service, a part of Consumer Services section of the USDA.

Before I proceed, let me express to the committee the regrets of Mr. Amstutz, the Under Secretary, who at this moment is involved with routine consultations with the Japanese on trade negotiations. It is a Cabinet Council meeting and one that was impossible for him to not be involved in, since he is the Department's principal trade representative in those types of negotiations. He sends his regrets, and unfortunately, you got the second team.

In the long run, we know that poverty is the cause of hunger and that until poverty is eliminated, true food security for the world cannot be realized. Overall economic development aspects of our aid programs are of vital importance. The Department of Agriculture has been heavily involved in those pertaining to agricultural development and trade expansion.

The U.S. Department of Agriculture has always had a major role in the U.S. food aid effort with both its bilateral programs and multilateral efforts, working first with the United Nations Relief and Rehabilitation Association and then, the World Food Program. In the 30 years since the inception of Public Law 480, USDA has helped provide more than $33 billion in food assistance to virtually millions of people in more than 100 countries.

Success in food aid is not only the distribution of increased quantities of food. It must also reflect the increased production in the agricultural sector and significant gains in effective demand based on economic growth. These can result in increased commercial trade.

By these measures, global efforts to solve the world's problems of hunger and development have met with mixed results. Rapidly rising populations have negated much of the gains in agricultural production over the past decade, particularly in Africa. At the same time, trade and agricultural policies of some importers and exporters have insulated domestic production from international trade, creating distortions and damaging fluctuations in both price and production levels of agricultural commodities.

Despite improvements in production and expanded food aid food aid, hunger, as you pointed out earlier, is still a problem for millions of people worldwide.

This administration is aware of the continuing need and has maintained the U.S. commitment to do all it can to improve world food security and has devoted increased resources to programs concerned with those efforts.

I might point out to the committee that the United States today, although able to do more, does distribute and participate in world food aid to a greater extent than all the other nations in the world combined, something in the nature of 60 percent.

The record of Public Law 480 is one of commitment and concern. Its objectives, to feed hungry people, support economic development, develop markets for U.S. farmers, and support U.S. foreign policies, have remained constant over the years. However, the uses of the program have varied with changing times. For example, when drought, internal strife, and continued lack of sufficient production incentives and technology ravaged food production in Africa, the United States—through Public Law 480—was quick to respond.

Fiscal 1981 became a record year in both the value and volume of food aid provided to Africa. High levels of assistance were also maintained in fiscal 1982 and 1983. By July 1984, the United States had already provided more than one-third of the total amount requested by the U.N.'s Food and Agriculture Organization to meet the current crisis.

Public Law 480 has been a model in leading the world food aid effort. Other countries, following our lead, have increased their contributions. We have encouraged this and are pleased that we no longer shoulder the burden alone.

The administration has maintained a strong commitment to Public Law 480. Funding for the program has increased despite constraints on the Federal budget: In fiscal 1984, the United States will program more than $1.6 billion under Public Law 480 to purchase and ship roughly 6.4 million tons of 25 different commodities to more than 80 countries. This includes the additional $90 million requested by the President for assistance to Africa for fiscal 1984 donations.

The President's budget for fiscal year 1985, for Public Law 480, requested about $1.7 billion. In addition, the recently enacted Agricultural Programs Adjustment Act of 1984 directed the President to seek additional funding for Public Law 480, title I and III in fiscal 1985 of $175 million. This supplemental funding, which has now been appropriated, when combined with the President's budget request and $60 million appropriated earlier for title II African drought relief, brings available Public Law 480 funding to $1.9 billion in fiscal 1985. Public Law 480 tonnage could reach 8 million metric tons in fiscal 1985.

In addition to Public Law 480 donations, the United States is donating dairy products to needy people abroad under the section 416 program.

As of September 11, shipments during fiscal year 1984 approximated 165,000 tons of dairy products, with an estimated market

value of more than $150 million. The largest volumes were delivered to Mexico, Brazil, and Poland.

The Agricultural Programs Adjustment Act of 1984 amended section 416 of the Agricultural Act of 1949 to expand the Commodity Credit Corporation's authority to donate commodities overseas. The amendments included the following:

Authorized CCC-owned wheat, in addition to dairy products, to be donated overseas for carrying out title II of Public Law 480 and for such purposes as approved by the Secretary of Agriculture;

Authorized certain sales and barter of the commodities donated, as approved by the Secretary; and

Authorized a 2-year pilot program for the donation of ultrahigh temperature fluid-processed milk acquired through barter or exchange of CCC-owned dairy products. Sales and barter of the donated UHT milk products are not authorized.

Since passage of the above amendment, the Secretary of Agriculture has initiated pilot shipments of UHT milk to recipients in Tanzania and Haiti, and has agreed to consider on a case-by-case basis barter and sales of dairy products donated under section 416. Whether wheat will be provided for section 416 programming will be considered on a case-by-case basis.

In December 1980, Congress authorized a 4-million-ton food security wheat reserve for wheat already owned by the Government. That's about 146 million bushels. The reserve may be released by the President under either set of two circumstances:

One, for emergency food assistance to developing countries, when U.S. domestic supplies of wheat are so limited that wheat is not available to the Public Law 480 program under the legal requirements of section 401 of Public Law 480.

Two, up to 300,000 tons—and this is within the framework of the food security reserve—may be used under the title II donation program of Public Law 480 in any one fiscal year to provide urgent humanitarian relief in any developing country suffering a major disaster. This authority may be used only when the wheat cannot be made available in a timely manner through regular Public Law 480 programming and would most likely be used late in a fiscal year when funding for additional food aid could not be obtained.

The food security wheat reserve may be replenished in one of two ways:

One, through purchases from producers or the market if the Secretary of Agriculture determines that such purchases will not unduly disrupt the market. Funds for purchase of wheat to replenish the reserve must be authorized in appropriation acts.

Two, by designation of stocks of wheat already owned by the Government.

The authority to replenish the reserve expires September 30, 1985. However, stocks already in the reserve remain available until used.

The food security reserve, as pointed out earlier, has not been used. Large wheat crops in 1981 through 1984 and ample supplies for food aid purposes made it unnecessary to draw upon it. In addition, no emergency situation has yet arisen that could not be met using existing Public Law 480 funds or by obtaining the necessary supplemental funding from Congress.

However, I would like to point out that the food security wheat reserve is a worthwhile assurance against international disasters in a most uncertain world. While we have not yet needed to draw on this reserve, the need to have a backup for the U.S. food aid, in our judgment, must continue.

Increasingly, over the past few years, the United States has used export credits more and more to cope with the lag in farm exports caused by global recession, a strong dollar, heightened market competition, and foreign exchange and debt problems of developing countries.

For many of our customers, the current consideration is credit—where are they going to get the money they need to buy U.S. farm and food products, is the question. In many countries of the world, the lack of foreign exchange severely restricts the amount that can be imported.

The workhorse of our financing tools has been the Commodity Corporation's Export Guarantee Program, otherwise known as GSM-102. This fiscal year, the overall ceiling for the GSM-102 program was $4.5 billion in credit guarantees.

The program operates in cases where credit is necessary to increase or maintain U.S. exports to a foreign market and where private financial institutions would be unwilling to provide financing without CCC's guarantees. CCC does not want to provide guarantees where commodities would be purchased for cash in the absence of a CCC program.

The program is generally targeted toward countries where the guarantees are necessary to secure financing of the exports and where the destination country has the financial strength to provide a reasonable expectation that foreign exchange will be available to make payments as scheduled.

Although GSM-102 in the past was geared mainly toward bulk agricultural commodities, it is now placing increasing emphasis on higher value specialty crops and processed products. Any agricultural commodity or processed derivative that may further USDA's long-range market development objectives will be considered.

We are starting the 1985 fiscal year beginning October 1, 1984 with $5 billion authorized for our GSM-102 program. Some guarantees for the 1985 year have already been announced. Others will be announced shortly.

A smaller program, blended credit, is being used this year specifically to counter export subsidies from the European Community. Under the program, direct Government credits, GSM No. 5, are blended with guaranteed commercial bank credit under the export guarantee program to provide financing at more competitive interest rates.

As the needs in overseas markets for such things as short-term commercial credit or additional commodities have changed, U.S. credit programs have been refined and tailored to reflect the new situations.

On the domestic side, the Department has a long history of involvement with food assistance programs.

Commodity distribution is only one part of a large total effort to meet the food needs of low-income Americans. The administration is most concerned about the nutritional well-being of those Ameri-

cans who are unable to provide an adequate diet for themselves. We now have in place an impressive array of food assistance programs. With such a large Federal commitment already established, alteration in food distribution programs must be carefully considered to avoid waste and redundancy.

A primary vehicle for providing food assistance to low-income people in the United States is the Food Stamp Program. Today it reaches approximately 21 million people in this country, almost 1 American in 10, at a monthly cost of approximately $1 billion. Expenditures for this program, excluding Puerto Rico, have increased from $8.3 billion in 1980 to an estimated $11.7 billion this year. Any family of four with an income of $13,000 or less is eligible for food stamps, if its resources or assets are under established limits. The amount of food coupons provided per household is based on the thrifty food plan, a low-cost nutritious diet devised by USDA, and on the net income of the household by household size.

The Food Stamp Program is responsive to people in need of food assistance quickly. Eligible applicants may receive benefits 5 days from the time they apply. The program is also the first line of defense against U.S. hunger.

There are several reasons for emphasizing the Food Stamp Program as our principal family nutrition effort. Economic need is the primary criterion of eligibility. Moreover, the amount of benefits is scientifically determined to guarantee access to a nutritious diet. It aims to improve the diets of recipients and thereby reduce malnutrition. Finally, it increases the demand for food.

Another program responding to those in need is the Special Supplemental Program for Women, Infants, and Children. Funding for this program has grown dramatically in recent years. Since 1980, when $712 million was spent, funding has grown by more than 90 percent to this year's level of $1.36 billion.

Currently, 0.1 million low-income women, infants, and children receive benefits from this program. Twenty percent of the babies born in the United States this year will be participants in the program.

This program is unique in its requirement that participants be provided with a nutrition education benefit intended to improve their nutritional status and to prevent nutrition-related problems. The Commodity Supplemental Food Program serves the same sort of population as WIC.

When considering the need for commodity distribution, we need to remember that our Child Nutrition Program continues to meet the nutritional needs of children. Every schoolday, the National School Lunch Program provides full reimbursement for more than 10 million meals and partial support for meals served to another 13 million school children. This year we will spend about $3.9 billion for child nutrition, including the School Breakfast Program and meals served in day care homes and centers and at summer feeding sites.

There are also programs administered by the Department of Health and Human Services to serve the elderly. USDA provides commodity and cash support to these programs which serve meals to older Americans at congregate feeding locations and to those who are homebound.

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To support and supplement this structure of feeding programs, we have a large food distribution network. Last year, we distributed about 2.5 billion pounds of food valued at more than $2.1 billion to various outlets, including schools, charitable institutions, child care centers, elderly nutrition programs, soup kitchens, food banks, summer camps, Indian reservations and supplemental feeding programs.

The commodities are acquired under price support activities and through market interventions to remove surpluses. In addition, some purchases are made for specific food assistance program purposes.

These traditional commodity distribution efforts recently were augmented by Temporary Emergency Food Assistant Program, initiated by President Reagan on December 22, 1981, and revised somewhat under Public Law 98–8 and Public Law 98–92. The scope of this program must necessarily be bounded by the availability of commodities and by our ability to deliver available items to needy individuals without adversely affecting the farmer-to-consumer food chain.

Every type of food commodity that the USDA holds in uncommitted inventories is presently being distributed for household consumption. Those commodities are cheese, butter, nonfat dry milk, rice, corn meal, flour, and honey. When USDA acquires fruits, vegetables, meats, and poultry through market intervention to remove surpluses, these products are donated to programs for schools and other outlets. Clearly, USDA is not sitting on enormous quantities and varieties of food, which some have suggested could quickly and simply be put into the hands of low-income Americans.

Through the program, the Department has provided extremely large amounts of commodities to needy Americans, almost 1.6 billion pounds from December 1981 to August 1984. This includes nearly 1 billion pounds of cheese, 300 million pounds of butter, 100 million pounds of nonfat dry milk, and smaller amounts of other foods. These have been distributed by many types of agencies, including food banks, soup kitchens, and charitable agencies.

The Department is now distributing the following level of commodities each month, and I don't think I will read, Mr. Chairman, all of these items, except that they are significant.

The CHAIRMAN. It will be included in the record.

[The information referred to above follows:]

	Million pounds
Cheese	35
Butter	12
Nonfat dry milk	5
Rice	2
Honey	5
Flour	8
Corn meal	3

Mr. GOLDBERG. These amounts are limited by the amounts in the Department's inventory and by the industrial capacity to process foods into forms and sizes suitable for households. In addition, the Department provides bulk quantities of cheddar cheese or noninstantized dry milk to States that can arrange for the further processing of these products. And I might mention, before we get into

the discussion, Mr. Chairman, that we have allocated those items to States as much as they can distribute and as much as they can get rid of. And the problems we have with some States is that they cannot distribute or get rid of all those products. And the reason I mention that is that we have a similar problem with some of the developing nations and underdeveloped countries, where we would like to get food into the distribution process, but they just don't have the infrastructure in the distribution process in order to get the job done.

In addition, the Department provides $50 million per year for State administrative expenses. This helps to ensure that State and local organizations have funds that defray their distribution costs.

In summary, the Department is continuing to distribute large amounts of surplus commodities through traditional commodity distribution efforts and through these programs. In this role, we are continually seeking to find ways to streamline and improve our commodity distribution operations.

Mr. Chairman, I apologize for the lengthy statement. I hope that it is meaningful. And that ends my testimony. I would be happy to respond to any questions that you or any other member of the committee may have.

[Information requested not received.]

The CHAIRMAN. Thank you, Mr. Goldberg.

Mr. Goldberg, in July 19, the Department of Agriculture's Commodity Credit Corporation announced the sale of $89 million in grain to private exporters for resale to African countries hard hit by severe drought. From the list of contract awards, it appears that a major portion of the grain, over half as a matter of fact, went to Nigeria, a petroleum-producing country not listed as suffering from extreme food shortages.

How has the sales program tried to target drought nations?

Mr. GOLDBERG. Let me address the Nigerian comment first, Mr. Chairman, and then I will work back for the total program, because I think you would like to know where you are at at the moment.

It is true that the bulk of the sales went to Nigeria, which is easily the most populous of the eligible nations; and furthermore, especially in the northern regions, they have some severe draught and hunger problems.

As you know, we listed some 24 possible eligible nations under this particular program and submitted and went out for bids. On the Nigerian situation, at the moment it is somewhat in limbo, because we have had some problems with the failure on the part of the Nigerians to open letters of credit. So at the moment, we only have a limited amount of corn and wheat that is in the process of being offloaded in Nigeria.

I just have to say that it was equally as drought stricken as any of the other eligible nations.

The rest of the program is still in process, but I might say to you and the rest of the committee that it is not without its problems. We did have one shipment of rice from Mali. The purchaser in Mali was unable to produce letters of credit to the exporter, and they were able to shift that particular shipment to another customer in Mali.

We have had a breach or were unable for a letter of credit to be opened in Guinea. That has been shifted now to other eligible countries.

We also had a cancellation of 46,000 tons of rice. I can't remember exactly where that was bound, but we shifted all but about 14,000 tons to another country. So I would have to say that within the timeframe, Mr. Chairman, since this is a new and rather different type program for us, I would say the jury is still out as to how it is progressing.

We have, on the water, rice, corn, and wheat bound for eligible countries under the program.

I hope that I have answered your questions, both about the overall program and also with respect to the one country, Nigeria.

The CHAIRMAN. I am particularly concerned about Nigeria, because we understand that over half of the products are being sent to Nigeria, and they, themselves, are turning those products away. They are saying that they don't need them, nor do they want them.

Mr. GOLDBERG. Well, the question is not a question of need, Mr. Chairman. In our judgment, it is a question of their inability to produce letters of credit to pay for them.

This program, I might point out, differs from the $90 million under Public Law 480 because it is a concessional commercial sales program to eligible countries requiring emergency food assistance. But it is not the same kind of program. They are not turning—at least we have no information that they are turning anything away because they don't need it. Our information from the mills and the government itself is that they do need the food. The problem is internal, and we are working on it.

The CHAIRMAN. What factors are you establishing to ensure the countries of need, the highest need, are actually getting the products that we are sending?

Mr. GOLDBERG. Well, we are relying on the governments of those countries, Mr. Chairman. The contracts between the U.S. exporters and the eligible countries are between the government and the exporter. We have asked those governments in all cases to make sure that these are in addition to normal sales, and that these sales will be used for distribution or in the needy areas. We are confident that they will do that.

The CHAIRMAN. What quantities of section 416 dairy surpluses have been utilized since enactment of the law?

Mr. GOLDBERG. I beg your pardon?

The CHAIRMAN. What quantities of section 416 dairy surpluses have been utilized since the enactment of the law?

Mr. GOLDBERG. Are you talking about domestic or overseas shipments?

The CHAIRMAN. Overseas.

Mr. GOLDBERG. I will give it to you in metric tons, Mr. Chairman. It would be 231,310.6 in metric tons under section 416. That is all dairy.

The CHAIRMAN. The Food Security Wheat Reserve Act was enacted in 1980, Mr. Goldberg, to ensure that in times of limited domestic supply, emergency food assistance would be available to developing countries on a donation or sales basis. The law also authorizes that up to 300,000 metric tons of wheat may be released

from the reserve for emergency use under Public Law 480, title II. This emergency authority has never been used.

What are the obstacles to the utilization of this authority?

Mr. GOLDBERG. Well, basically you have to look at the intent of the food reserve, and I think I alluded to it somewhat in my testimony.

No. 1, you plug it into place mostly in a general fashion, because you don't have available stocks under existing Public Law 480 programs. If you look at our production records in this country between 1981 and now, we are not in a position where we have to tap the emergency food reserve. As to the 300,000, which is included within the framework of that reserve, that amount can be considered at ends of fiscal years where supplemental appropriations are not coming forth, and we could tap that specific part of it for Public Law 480 purposes.

Through the generosity of the Congress and our normal operating procedures, there again there have been enough other alternate programs available and funding for them, so that that has not been necessary.

The CHAIRMAN. Mr. Emerson.

Mr. EMERSON. No questions.

The CHAIRMAN. Mr. Smith. Oh, we do have a quorum call. The chairman is waiting for Mr. Hightower to assume the Chair.

Mr. SMITH. I do have a question.

The CHAIRMAN. Sure. Mr. Goldberg, maybe we should suspend until we get back. We will be right back.

[Recess.]

The CHAIRMAN. When we left, Mr. Smith had some questions of Mr. Goldberg. Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Mr. Goldberg, I am interested to know who determines, or whose responsibility is it, for the determination of the priorities of countries that participate in Public Law 480?

Mr. GOLDBERG. There is a food subcommittee headed by USDA. It consists of OMB, AID—about four or five agencies. We are the lead agency.

Mr. SMITH. And does that committee consider eligible countries and the methods by which they handled Public Law 480 commodities? For instance, do they consider whether those countries use credit extended from the United States to buy competitive products from other nations, rather than the United States?

Mr. GOLDBERG. Without additional—making an addition to, rather than substitution for? Is that what you're referring to?

Mr. SMITH. Are there any foreign countries receiving credit from the United States that are using it to buy commodities from other countries?

Mr. GOLDBERG. I think the answer is no. No.

Mr. SMITH. How do you monitor that?

Mr. GOLDBERG. I have Mr. Pope from the Foreign Act Counsel Service. I will let him respond. I think I know the answer, but he is more of an expert.

Mr. POPE. Thank you, Mr. Chairman. On credits that we extend through USDA, for a variety of programs, we assure that the commodities are purchased in the United States by having the sales

registered by U.S. exporters. And then we monitor the export documentation to assure that the commodities were shipped from the United States.

Mr. SMITH. Does your committee also monitor loans from other lending institutions controlled by this Government to foreign countries, with respect to their expenditures, their loans, and those nations who are the recipients of those loans to buy competitive agricultural products from this Nation?

For instance, IMF, World Bank.

Mr. POPE. Mr. Smith, I am not necessarily sure that the United States controls those institutions. I think other institutions, such as the Export-Import Bank, perhaps the USAID programs that extend credits for agricultural commodities, they have similar programs to assure they are U.S. commodities.

But I'm not so sure there are international type lending institution, that there is any assurance that their loans will be expended in the United States.

Mr. SMITH. We may not control it, but we put up a huge amount of our share. And if we didn't, it wouldn't exist, either the IMF or the World Bank or any other.

So the question is you don't know whether or not there are any contingencies about buying our products, should they borrow our money? You don't know that?

Mr. POPE. That's correct. I do not know.

Mr. GOLDBERG. We could, Congressman, if you would like, prepare a more detailed response to that.

[Information referred to not received.]

Mr. SMITH. Yes, obviously by the line of this questioning, I am interested in not only just the narrow expenditure of loans or loans under Public Law 480, but also the other agencies under the control of the Department of Agriculture who may loan money, through one way or another, CCC and others, to foreign countries. And what kind of requirements we make upon them after they borrow our money, so that they indeed buy our products.

That's my interest and I would appreciate your giving me a report when you can.

Mr. GOLDBERG. That is a very good question.

The CHAIRMAN. Mr. Goldberg, I have no further questions of you. I understand that the ranking minority member, Mrs. Roukema, does have questions.

I'm in somewhat of a dilemma. If I could ask you to stay for at least a few minutes, we will proceed with our next witness and when Mrs. Roukema gets back, we will ask you to be available for questions and answers.

Mr. GOLDBERG. I'd be happy to, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Mr. Goldberg, also I would like to suggest to you that the select committee might have some further questions of you, as we will of other panelists. And we are going to keep the record open for your responses. Understand that we are particularly interested in the situation with Nigeria that I alluded to earlier.

Thank you.

The next witness is Ms. Julia Chang Bloch, Assistant Administrator, Food for Peace and Voluntary Assistance, U.S. Agency for International Development.

Ms. Bloch, welcome and thank you for coming.

STATEMENT OF JULIA CHANG BLOCH, ASSISTANT ADMINISTRATOR, FOOD FOR PEACE AND VOLUNTARY ASSISTANCE, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, USAID

Ms. BLOCH. Thank you very much, Mr. Chairman. I appreciate the opportunity to testify this morning.

Since you have a large number of witnesses, I request permission to submit my statement for the record.

The CHAIRMAN. Your statement will be included in the record.

Ms. BLOCH. I will just make a few highlights, if I may. Several members of the committee have already alluded to the hunger paradox. I think it is one of the greatest paradoxes of our day. The world today produces enough food to feed everyone. But increasingly there are larger numbers of hungry and malnourished people in this world.

One of the questions that I am asked most frequently, when I speak around this country, is why can't we use or take the American agricultural abundance and turn it into programs to help the poor and hungry in this world.

The answer to that, I think, is that Public Law 480 or the Food for Peace Program is a vehicle that does just that and much more.

The reason why Food for Peace has not and cannot take all the unused American agricultural abundance and turn it into programs to help the poor and hungry is precisely, Mr. Chairman, what you said in your opening statment. Dumping is not the answer. And of course, we cannot and should not displace commercial sales.

The Congress recognized, as early as 1966 when it deleted all references to surplus disposal from the Public Law 480 statute—those of us who administer food aid have learned from the record of the program, the 30-year history of the program, and a very proud history I might add—that food aid alone cannot end world hunger.

For food aid to be more than palliative, we have to go beyond feeding. This however is not to give short shrift, not at all, to the fact that Food for Peace is and continues to be the most effective and efficient emergency food response mechanism that the world has ever seen.

The question I think we should be addressing—and this is the primary concern of AID—is how do we use America's agricultural abundance effectively and increasingly more effectively? And how do we multiply the value of our food commodity to help the poor and hungry in a way that creates self-reliance and not dependence?

In my statement, I give you some specific examples, but let me just highlight some of those examples, or give you an overview. Let me start with our traditional modes of response. As you know, our Food for Work Programs have built millions of miles of roads, planted billions of trees and built countless irrigation networks. What does it do? It uses our food and turns it into wages to create jobs, primarily for landless laborers, who otherwise would not have

any employment or any means—during the off-farm seasons—to support their families.

In essence, we are getting a triple bang out of our food resources. The food creates jobs, the food provides wages for the laborer. They, in turn, then can feed his or her family and in addition it leaves behind a very much needed infrastructure in the rural areas of the poorest countries of this world.

Another traditional Public Law 480 program is maternal and child health. Here we use the food as an incentive to draw mothers and children into clinics and centers. And we use that food to demonstrate to the mother the link between feeding, nutrition, and health.

In some programs, we sell a portion of the food—or rather the voluntary agencies do—and the proceeds are used to buy material to enhance the developmental impact of maternal and child health programs, such as scales, so that the program can mount weight surveillance programs. A mother can then see and can track regularly the health of her baby by looking at the weight and looking at the nutrition and the food that she is giving that child.

We are increasingly looking at more innovative ways to extend the impact of that food commodity. We are trying to look at food, not just for consumption, but for creating productivity. Later on you are going to be hearing from LaVern Freeh from Land O'Lakes with an example of that kind of a program.

Under the Jamaica Land O'Lakes project, the sales proceeds from Public Law 480 title II butter and cheese processed in-country, are used to capitalize a Jamaica agricultural development foundation. And that foundation will promote small-scale agricultural and private enterprise projects in Jamaica. Vern will give you much more details about this.

Another example is India. Through the CLUSA, that is the Cooperative League of the USA oil seeds project, over 1,000 cooperatives for oil seed production have been created using currencies generated through the sale of Food for Peace commodities, and there cooperatives cover more than 2,000 villages, benefiting 74,000 farmers. These are very productive enterprises.

And finally, in terms of examples, I think we all understand that no amount of aid will do any good in an environment that is not conducive to development. One of the major priorities of AID, under this administration, is to use our aid—including food aid—to effect necessary policy reforms. And we are increasing successful in using particularly our title I and III resources to effect necessary policy changes in food deficit countries, in the pricing sector for example, so that farmers will not be discriminated against in the marketing structures, so that the recipient countries will move increasingly into the free market economy.

I have given you some very positive examples of how food, a very valuable commodity, can be used effectively and positively. But there is another side. We can also identify the dangers that will result, and have resulted, frankly; when distribution systems are inadequate for the volume of food supplied; when developing country policy frameworks are inappropriate to the effective use of food aid; when commodity mixes are poorly tailored to developing country dietary, customs, and needs; and when food supplies are sup-

plied without due regard for possible disincentive effects on local agricultural production.

We found, for example, that shipments of American long-grained rice to Senegal led to large, immovable stocks. The countries—or the people in those countries—preferred shorter, broken rice and coarse grains, both of which were available from other countries at much cheaper prices than our aid.

And so these countries are, in effect, saddled not by aid that can benefit its people or development, but in the fact with immovable stocks that take up very scarce storage facilities in those countries.

However, AID believes that we have learned and we know how to use food aid effectively. We also believe that Food for Peace is a unique program that can promote economic development in poor countries and market development for U.S. agricultural products.

Our ultimate objective is not aid. Our ultimate objective is to move from aid to trade and I think on that score that the Food for Peace Program has a record that it can truly be proud of. Of the 10 major buyers of U.S. agricultural products today—or rather 1983—eight of those buyers were recipients of Public Law 480 commodities at some time. Six of them, major recipients.

We at AID are very willing and look forward to working with this committee to see how we can increasingly use food aid in a more effective way to help the hungry and the malnourished; and at the same time help our American farm economy.

Thank you.

Responses to Questions for Julia Chang Block

QUESTIONS SUBMITTED BY HON. MICKEY LELAND

Question. Has section 416 been monetized? If not, why? What is your Agency's position on the use of surplus dairy products in dairy development projects such as the India project sponsored by CLUSA and the Land O'Lakes project in Jamaica? Is wheat available under section 416? Are other commodities being considered under section 416 for foreign donations?

Answer. Monetization of 416 commodities has been authorized to cover logistics and distribution of commodities, 10 to 15 percent of value, under voluntary agency and government to government programs. Damaged commodities are also authorized for sale for nonfood use.

AID is supportive of the use of 416 commodities in dairy development projects.

USDA has announced recently that an unspecified amount of wheat will be made available for section 416 programming. Requests are to be considered on a case-by-case basis. To date, no requests involving wheat have been received by AID.

At the present time no other commodities are being considered under section 416 for foreign donations.

Question. What quantities of section 416 dairy surpluses have been utilized since the enactment of the law?

Answer. By the end of September 1984, 392,754 metric tons had been utilized under section 416.

Question. What provisions does the Public Law 480 budget make for emergency programs? Has this level proven adequate in the past?

Answer. AID's congressional presentation for fiscal year 1984 proposed a reserve of 412,000 metric tons for emergency programs. Extraordinary poor harvests in Africa led to supplemental requests and appropriations that funded an additional 444,000 metric tons for fiscal year 1984 and fiscal year 1985. Normally title II emergency reserves have been sufficient to meet unforseen food needs.

Question. Will supplemental emergency funds be required in fiscal year 1985?

Answer. AID is reluctant to predict the need for supplemental funds at this time due to incomplete production data on the summer growing season in the Sahel, the short rains in East Africa and our belief that too much food can have a significant negative economic impact as well as overtax an already fragile infrastructure. Con-

gress can be most helpful in maintaining its keen interest in the African food problem. If events dictate that additional assistance is necessary for Africa in fiscal year 1985, we will consider all possible sources of funding to meet requirements, including the possibility of requesting supplemental appropriations.

Question. There have been charges made that food aid programs have been a disincentive to local production and have created a dependency on foreign food aid. To what extent is this, in your opinion, true?

Answer. Available evidence suggests that food aid has had far less disincentive effects upon food production than critics claim. However, the possibility for disincentive effects always exists and sometimes they do occur. Moreover, if food aid increases substantially, the significance of the Bellmon amendment also increases, and disincentive effects become real possibilities.

AID is preparing a guidance paper which establishes specific criteria for better judging the impact of Public Law 480. We believe that the approval and implementation of these guidelines will provide a sufficient measure of assurance that both current and expanded Public Law 480 levels will not exert substantial disincentive effects.

Question. Should there be a clearer distinction made between concessional sales programs and grant food aid, when analyzing the impact of food aid programs?

Answer. AID does distinguish between these two programs when analyzing their impact. Each serves different objectives and is evaluated accordingly.

[The prepared statement of Ms. Bloch appears at the conclusion of the hearing, see p. 91.]

The CHAIRMAN. Thank you, Ms. Bloch.

I'm going to ask Mr. Goldberg if he will come back to the table so that our ranking minority member can ask her questions. And then we will proceed with questions for you, Ms. Bloch, with your indulgence.

Mrs. Roukema.

Mrs. ROUKEMA. Thank you, Mr. Chairman.

Mr. Goldberg, the train of thought has been interrupted here but we will try to pick it up from my perspective. Forgive me if I go over something that you have already addressed in my absence.

This question I really have for both you and Mrs. Bloch. I think you have both done an excellent job of delineating what progress has been made and what the potential good effects are of the programs of which you spoke. Yet, you have made some imprecise references to the economics of agriculture. I mean, in a number of different ways—the food trade, infrastructure, commodity exchanges, and credit exchanges.

In consideration of all that we have done that is positive, while admitting the problem that we have out there, where do you see us targeting our future efforts. How do we overcome the economic problems here, the dumping problem on the one hand, the cost to the farmer on the other, and the cost to the Federal budget on the other? Is that too much to ask?

Mr. GOLDBERG. No.

Mrs. ROUKEMA. No, I mean, I don't want you to give an hour lecture because it would take 3 days to discuss it in full. What do you think would be your main target if you were in the position, to define how we could improve the program?

Mr. GOLDBERG. Well, I believe that—just to respond in a simplistic fashion—I don't know that you can go with a shotgun-type approach. You've got to look at it in an individual, analytical basis, because as you pointed out in the text of your question, economic considerations, both for this country and for the recipient country, is a major part for consideration.

For example, we still feel and strongly believe that the economic development of these nations in the long term is the answer. By the same token, we are not that favorable for programs for certain countries that are not in addition to what would normally be a commercial sale, or that would be in competition with the U.S. farmers in our own marketing operations in this country.

Obviously——

Mrs. ROUKEMA. You are not in favor of that?

Mr. GOLDBERG. I would not be in favor of that, no. That isn't to say that certain areas and countries, I believe where we have made an attempt to do that, should be targeted for those types of programs.

Mrs. ROUKEMA. Is that the reason you have taken your position, on the 416 program, particularly but not only on the dairy side of it. As I understand it from the Senator's testimony and perhaps even from your own testimony, there is considerable reticence in qualifying any programs for the extension of the wheat-aid program under that.

Is that the same reason?

Mr. GOLDBERG. My testimony indicated that we would consider wheat on a case-by-case basis and we believe that that is a positive position with reference to wheat. Our position has been, under 416 primarily and particularly in the dairy area, that is a surplus commodity, difficult to sell. And even though we have surplus wheat in most States, including Oregon, South Dakota, Texas, and other wheat-producing States in the country, Missouri, that is a saleable product.

Wheat in this country—we produce a high quality product which can be, at some point in time, sold in commercial trade. And the problem with 416 in wheat, is that we would look at wheat and you have a greater problem with wheat. You have to go with our types of wheat, the countries that utilize wheat. You know, you've got——

Mrs. ROUKEMA. I don't want to put you on the defensive, but I want to give you an opportunity to respond to what I think the Senator was saying, which was literally that the Department of Agriculture is not cooperating to its fullest in this. I want to understand why you feel that you are doing as much as you can and moving as expeditiously as you can to implement the new legislation.

Mr. GOLDBERG. Well, we would differ with the Senator. We feel that we have moved fairly rapidly since the passage. He talks about 163 days. We feel we have moved very—we are very rapidly implementing the regulations. We pointed out to the Senator and others, some of the shortcomings of including wheat in section 416.

However, we have agreed to look at it on a case-by-case basis. And we can envision, under certain circumstances, where that program might be implemented as a supplemental program in place of title II.

But you have to realize that all of the aid programs have certain defined objectives within the framework of those particular programs, and they aren't programs to displace either the program or—as we reiterated before—other ongoing programs or displaced commercial sales.

Mrs. ROUKEMA. Then you feel as though we are moving surplus food supplies as rapidly as we can, to meet the need?

Mr. GOLDBERG. We are doing the best we can. I suppose it's like any other aid program, Mrs. Bloch and others have turned out. I'd be the last one to say that we are absolutely letter perfect, because there is always room in any program for improvement. But I have to say that the Department is moving as fast and expeditiously and efficiently as we can, within the framework and intent of the legislation, looking at all of the other ramifications involved, and most of which have been raised here this morning.

Mrs. ROUKEMA. So it is not a problem of more money?

Mr. GOLDBERG. I think probably if money would solve the problem, we are spending enough money. I don't think that's the problem. I think, as Chairman Leland pointed out very early on in his opening remarks, the dumping of products into countries that produce farm products but are not distributing to their needy, that is not the solution to the problem. And spending money to do that isn't the way to do to it.

Mrs. ROUKEMA. Ms. Bloch, would you like to comment on the economics of agriculture, as it relates to your comments and your view of the future?

Ms. BLOCH. Let me try, because that is not the kind of question that AID usually gets. We think that——

Mrs. ROUKEMA. But you made some specific references to economic concerns here.

Mrs. BLOCH. Right, but we have a narrower view than the Department of Agriculture. As I see it, I think Mr. Goldberg also noted the future for American agriculture, I think, lies in export expansion. We are the most productive agricultural country in the world. We obviously grow more than we can use ourselves.

If you look at the marketing trends or export trends, our traditional buyers, our traditional importers, in Western Europe and Japan, the levels are really stagnated. The demand for agricultural products is leveling off. Where is that demand rising and growing? In the developing world, particularly in the middle-income countries who because they have improved their economy have the cash to buy from us.

AID, however, takes a much longer view because our business is development. And we are focused now primarily on Africa because not only is their need the greatest, but also if you are looking purely at the market creation objective appeal, that is a large continent and that is also part of the future. Beyond humanitarian reasons—Africa can also be a market, although much more down the road, for American agricultural products.

We have to begin now to deal with the structural problems that stand in the way of Africa becoming or overcoming its food deficit status.

And that is why one of AID's primary emphasis is on policy dialog and policy reform.

Mrs. ROUKEMA. That's my second question for you. Mr. Goldberg alluded to this question, although it was tangential really to the body of your testimony. What are the farm policy questions to be asked? How do the negotiations work between your department

and foreign countries, in order to change internal policies within those countries consistent with our objectives.

Would you like to comment further on that? How does one do that?

Ms. BLOCH. AID has responsibility for implementation of the Public Law 480 program.

Decisions about allocations are made in the interagency process. Mr. Goldberg had referred to the Food Aid Committee, which USDA chairs under title I and III. And the membership includes, as Mr. Goldberg pointed out, USDA, Department of State, OMB, AID, Treasury, and at times Commerce, and at times NSC.

The negotiations for the agreements in the field. AID normally takes the lead. In terms of the provisions for the agreement, that again is worked out in the interagency process. But it is our missions, the USAID missions, to first come in in consultation with the recipient country, come in with a plan for what needs to be done. And that is really the beginning point, in terms of policy guidelines.

Mrs. ROUKEMA. Perhaps you can submit further testimony, as to the actual progress on a case-by-case basis, for the committee's consideration?

Ms. BLOCH. Yes, I'd be glad to. And there are specific examples in my testimony.

[The information follows:]

PROMOTING FOOD POLICY REFORM

The following examples are provided of progress made in promoting food policy reform through Public Law 480 negotiations and agreements:

Under the Sudan title III program, the U.S. Government supported a policy reform to increase staple food prices. In response, the Government of Sudan has adjusted wheat/flour/bread prices to reflect actual costs and is testing blended wheat/sorghum flour in a number of areas in Sudan. The Mission also secured GOS agreement to promote Public Law 480 wheat/flour importation and sale through the private sector, and to eliminate direct involvement of the GOS' military economic board, a government parastatal, in handling Public Law 480 commodities.

The Mali title II, section 206 program supports a multi-donor effort to reduce Mali Government intervention in cereals marketing. Mali's Minister of State for Economy and Plan recently acknowledged that it was his negotiations with the United States on the transfer authorization for the Public Law 480 section 206 project which triggered a GRM policy decision to liberalize paddy rice marketing over the next 3 years. USAID/Mali further reports that "Mali's reform program is proceeding at an encouraging pace, that multi-donor coordination has been excellent, and that the donor's incentive package is effective in strengthening the prospects for practical policy reform."

The U.S. country team has successfully undertaken a policy dialog through the Tunisia title I program to liberalize fertilizer marketing and increase Tunisia's food production capacity. Self-help measures called for more timely importation of adquate supplies of fertilizers, and complementary measures. These include construction of additional storage capacity, the relaxation of price ceilings on fertilizer sales to encourage greater private sector participation in fertilizer marketing, improved farmer access to credit, agriculture research, and wider extension of fertilizer application practices.

Mrs. ROUKEMA. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Mr. Goldberg, you are dismissed now.

Mr. DASCHLE. Mr. Chairman.

The CHAIRMAN. Oh, I'm sorry. Mr. Daschle.

Mr. DASCHLE. I have to excuse myself at this time for an appointment, but I would like to submit some questions for the record, for Mr. Goldberg in particular, and Mrs. Bloch, if that is appropriate.

The CHAIRMAN. The record will be open for that purpose.

[The information referred to not received.]

Mr. EMERSON. Before the witnesses leave, could I ask a couple of questions? First, I would like to make a statement.

Mr. Goldberg, on the points that Mrs. Roukema raised, I think you probably have a fineline to walk. One of the objects of the Department of Agriculture, is to help facilitate sales of our producer's commodities. Many countries will buy wheat, but if they think we're going to give it away, they won't buy it. So I think we've got a jurisdictional thing here.

AID and other agencies are in the business of giving it away and Agriculture, of course, tries to promote the sale of it. So we've got to work together because one of the factors in the equation here is that we don't want to hurt a potential sale where there are countries with resources to buy them.

Many of them, if they think we're going to give it to them, obviously won't buy it. So you've got to make an assessment that if we can sell it we want to sell it, rather than give it away. And that is not, in any way, to abbrogate any humanitarian consideration. If they can't buy it, if they need it, then we ought to give it to them.

But if they can buy it, we shouldn't play games and dance around with them if we can sell it to them.

I would make that point most emphatically.

Second, I would like to ask you, Mr. Goldberg, what data does the USDA have on the displacement of cheese, margarine, and butter, and other items, as the result of the Domestic Feeding Program?

Mr. GOLDBERG. We have done some studies on it, Congressman, and we can provide it for the record. I think I know, but it would be off the top of my head.

[The information referred to not received.]

Mr. EMERSON. I would appreciate it if you would supply that for the record. We'd probably also be interested to have that information in the Agriculture Committee.

Mr. LAIRD. I think, since we have stabilized the program and the program has gone for 2 years now, we are starting to see the displacement lessened somewhat. There is no doubt that there still is some, but we aren't hearing the anguish much.

Mr. EMERSON. Thank you. I would appreciate it if you would submit that for the record.

The CHAIRMAN. Thank you, Mr. Goldberg.

Ms. Bloch, with regards to the level of funding for Public Law 480, in fiscal year 1985 and subsequent years, what levels are anticipated levels for title I, title II, and title III? How do these levels compare to fiscal year 1984?

Ms. BLOCH. Let me give you the figures for fiscal year 1984. The title I program was at $872 million. The title II program, the regular program, at $650 million. And of course, the administration requested and Congress provided an additional $90 million supplemental for Africa.

The total is $740 million for title II.

The total fiscal year 1984 budget for Public Law 480 was $1,637 billion. That was 1984.

For fiscal year 1985, title I will come in at $1 billion, or almost $1.2 billion. That includes $175 million supplemental provided by Congress and the title II program will come in at $710 million, including the $60 supplemental for Africa provided by Congress.

The total budget for Public Law 480 for fiscal year 1985 will be at about $1.9 billion.

In terms of the outyears, the figures are still under discussion. And there are no—or nothing firm that I can give you.

The CHAIRMAN. Why is the donation program remaining rather static?

Ms. BLOCH. Mr. Chairman, I think that we are all very interested in moving as much of the agricultural abundance in America to help needy people abroad. Title I, however, is a vehicle that can move more commodities at a faster rate than title II.

Sales programs that use existing marketing mechanisms do not require the kind of administrative managerial and operational structures and accountability systems that free distribution programs require. And this is particularly difficult since we are trying to move the title II—move toward title II programs because the need is the greatest in Africa.

And our implementing capacities, not to mention the recipient countries' own capacities for operations, are much weaker in sub-Sahara Africa than in the other continents. We have been recruiting voluntary agency cosponsorship of title II programs in sub-Sahara Africa for the last 2 years.

The person sitting behind you is very much actively a part of that. As a result, we have gained a few new entrants into the cosponsorship of title II programs, like World Vision, like Lutheran World Relief, like the African American Labor Institute.

But to date, over 90 percent of our food aid to Africa must depend on the Catholic Relief Services.

In 1985 we are hoping to launch three new programs with voluntary agencies. But still there remains 18 sub-Sahara African countries, and I am only counting those who need food aid, that do not have any voluntary agencies willing or able to cosponsor our title II programs.

The CHAIRMAN. You earlier alluded to the Land O'Lakes projects and the CLUSA project. Are there any projects like that on the drawing board now?

Ms. BLOCH. There are projects on the drawing boards. The problem is that both of these programs require 100 percent sales of the commodities involved. And we are now, with any executive branch, trying to resolve—come to a conclusion on policy guidance with respect to sales of commodities under the title II program.

One other example that I can throw on the table right now is a CLUSA Indonesian program, very similar to the India.

The CHAIRMAN. I'll ask my colleagues if they have any further questions of Ms. Bloch?

Mr. Smith.

Mr. SMITH. Just one, Mr. Chairman.

Ms. Bloch, you identified some successes at the Agency in international development. And on page 7 you have also identified—not

failures, you call them dangers. For instance, developing country policies framework are inappropriate for the effective use of food aid, commodity mixes are poorly tailored to developing countries, dietary customs or needs for food supplies are provided without due regard and possible disincentives.

That is on local agricultural production. Isn't that a criticism of the Food Aid Committee on which you sit?

Ms. BLOCH. I wouldn't call it a criticism of the Food Aid Committee. I mentioned these as dangers specifically to not get involved. I think, frankly, that these problems with respect to food aid are overblown and, in fact, many of the disincentive criticisms are outdated. But I think we have to allude to them so that people understand that we know that they exist and we are going to administer our program so that they will not, in fact, affect our programs.

Mr. SMITH. Therefore, these are dangers that you bring up continually when the Food Aid Committee meets, with respect to the selection of the countries that Public Law 480 will apply to?

Ms. BLOCH. That's exactly right.

Mrs. ROUKEMA. I do have a question. As we all know, the Food for Peace Program, Public Law 480, will be coming up for reauthorization next year. One of the profound questions that the Congress is going to have to determine is the level of reauthorization, not to mention the conditions under which it should be reauthorized.

And yet, this week in the Washington Post, and I guess it appeared in other papers across the country, there was an interesting front page article on the problems in Ethiopia, directly as they relate to the port facilities, warehousing, transportation networks—about which, by the way, you have spoken quite cogently—as it relates to their total food distribution problem.

The fact is, in the case of Ethiopia—but it is typical and instructive for our problems all over—that distribution and transportation and logistical support facilities are indeed at the heart of many of our food shortage problems.

My question is, now as we design and look toward a new Food for Peace Program, how can we meet the other aspects, the infrastructure aspects better and design that with forethought and not just—if you'll pardon the expression—throw food at the problem. Food that is rotting, you know, on the shores or in the tankers.

Ms. BLOCH. Congresswoman Roukema, I think that's a very important question because I think the effectiveness and efficiency of any emergency response is keyed to how effectively and efficiently we can transport and get the food to the people actually in need.

Mrs. ROUKEMA. I'm going beyond the emergency question. I am going to——

Ms. BLOCH. The longer term.

Mrs. ROUKEMA. The longer term. And as it relates to American agriculture, too, because American agriculture wants these markets.

Ms. BLOCH. Yes, I understand.

We recognize that that was a critical problem. And as you know, the President ordered the National Security Council to initiate a hunger effort.

Mrs. ROUKEMA. This is no criticism of the administration.

Ms. BLOCH. I understand that. But I wanted to give you the answer, as to what we think should be done. And that study produced a number of recommendations, two of which the President has sent forward to the Congress as legislative proposals. One of those is to allow or authorize Public Law 480, title II, to provide incountry transportation costs. It directly addresses your question.

We have also gotten $60 million from Congress for transportation, in-country transportation related costs, for the African emergency. But that we have to use by September 30 and that is a very short time period. So the proposal that we have sent forward to the Congress, however, we hope to use in a much more longer term way for preparedness, so that we would not have to always be in an ad hoc position.

So that if an emergency arises and the roads are not sufficient, somehow you cannot build roads in order to meet the emergency need. So what we want to do is to have some kind of ability to build in disaster preparedness with a view toward longer term.

And I would also say that it has to be transportation defined in a broad sense, because a lot of people would think transportation, it's just trucks or cars or whatever. But in these countries, where the economy is very poor, lack of fuel, lack of spare parts, lack of human resources, who can maintain the fleets, the road systems, also port facilities. I mean, we're talking about exporting more American agricultural products. Many of the developing countries' port facilities need to be improved, storage facilities also require improvement.

So we are hoping that the President's legislative proposal—although it seems like a small proposal—is one step toward what you are asking about.

Mrs. ROUKEMA. Thank you.

The CHAIRMAN. Are there any other questions of Ms. Bloch?

[No response.]

The CHAIRMAN. Ms. Bloch, thank you very much for your contribution.

The next witnesses will give testimony on a panel. We will have Mr. Patrick Healey, who is chief executive officer for the National Milk Producers Federation; Mr. Nelson Denlinger, executive vice president of U.S. Wheat Association; Mr. Robert Fondahn, president of Fondahn & Associates.

Gentlemen, we thank you very much for coming to make a contribution to the select committee and to the Congress. And we ask that you proceed in the order in which we have called you.

STATEMENT OF PATRICK B. HEALY, CHIEF EXECUTIVE OFFICER, NATIONAL MILK PRODUCERS FEDERATION

Mr. HEALY. Mr. Chairman, my name is Patrick B. Healy and I am the chief executive officer of the National Milk Producers Federation. And we represent the Nation's dairy farmers and the cooperatives which these producers own and operate, and through which they market most of the milk, about 85 percent of the milk that moves into markets in America.

In the interest of time, Mr. Chairman, if you will print my statement, I can summarize it very briefly.

The CHAIRMAN. The committee and the chair will both appreciate your summarizing your statement and understand that your statement will be included, in full, in the record.

Mr. HEALY. Thank you, sir.

We are pleased to be here today to address the use of our national abundance to the hungry, both at home and abroad. It is indeed a shame and a tragedy that hunger exists today in the face of the abundance which we, as a nation, possess.

I have attached to my statement a case study which I commend to you and to the committee to look at. It reads sort of like a soap opera, but it is a fact.

I talked to the lady involved in it. She is here in the room today, Ms. Gleason. She feels greatly elated that after 2½ years she is getting some milk for some schoolchildren who are hungry and destitute in Haiti. Two and a half years—we put a man on the Moon sooner than that, and I think the difference is we wanted to put a man on the Moon.

And we apparently, as a nation, do not want to defeat hunger. And I think that is a shame and a tragedy. And I think we should address ourselves to it.

We have done pretty domestically. Our child nutrition programs, our school programs, our direct distribution programs have indeed moved food toward the hungry. There have been some mistakes made early on in this cheese distribution. There was a displacement beyond what should have happened of the commercial markets.

We address that with the Department, as other people did. It was corrected and I think the program is operating very well.

But I think, Mr. Chairman, in all of these things, we should dare to do and make our mistake on the side of feeding the hungry. Then, if we go too far, if it causes some trouble, we should jump in and correct it. But let us not be so careful that we never get the job done.

I don't think we have made as good a showing abroad. We started with distribution programs way back in 1935 using section 32 funds. And we passed laws ever since which indicate that the Congress and the Nation want to feed hungry people abroad.

I don't know whether any of you have ever read the CCC charter, but you know, it almost allows the Secretary of Agriculture to rob widows and orphans. He can't do anything, under the CCC charter. He apparently does not desire to do it. That's where the problem lies.

Senator Melcher, for the last 2 years, aided by Congressman Pease and Congressman Jeffords, has tried again with this 416 authority that has been extended. But we do not need new legislation. What we need is a new will and a new desire on the part of those people charged with distributing commodities to get the commodities distributed.

There are ways to do it. They have been proven. But you know, maybe part of the problem—I was astounded. Maybe I was the only guy in the room that recognized it, but when Mr. Goldberg left, half the room left with him, his advisors. And do all of those people have to be in agreement before we can ship a car of milk to Haiti? Is that the problem?

Well, I think it important to do this. I think it important for Congress, through this oversight progress, to make sure that it is being done in the way that you want it done. And I am happy to be here today to participate in the process and I thank you very much.

[The prepared statement of Mr. Healy appears at the conclusion of the hearing, see p. 101.]

The CHAIRMAN. Thank you very much, Mr. Healy.

Mr. Denlinger.

STATEMENT OF NELSON DENLINGER, EXECUTIVE VICE PRESIDENT, U.S. WHEAT ASSOCIATES, INC.

Mr. DENLINGER. Mr. Chairman, and members of the committee, my name is Nelson Denlinger, and I am executive vice president of U.S. Wheat Associates. I will try to summarize a fairly brief statement and make myself available for questions.

U.S. Wheat Associates is the market development arm of the U.S. wheat producer. Through our central office, in Washington, DC, another in Portland, OR, and 13 overseas offices we represent the U.S. wheat producer in promoting his overseas markets.

Our board of directors is entirely composed of producers from the 14 member States. And of course, these State organizations play a major role in our market development activities.

The primary objective of the U.S. Wheat Associates is to increase wheat exports and to make sure that the United States gains a significant share of those increased markets. We find that many countries, particularly rice eating countries, are increasing their consumption of wheat because it is nutritious, their people like a greater variety in their food intake, and wheat is economical.

U.S. Wheat Associates strives to achieve its objectives through several avenues. We provide technical assistance and information to millers and bakers, we provide market information and training to overseas buyers, both government and private.

This year, for example, we will have some 25 trade teams come to the United States to learn more about the U.S. wheat industry. Through these efforts, we have developed new markets and expanded old ones. However, the competition in the last few years has been very intense and we have seen our share decline in a somewhat stagnant market.

In the coming year we expect to see some modest improvement in U.S. wheat export volume.

Our producers face serious economic problems today, as I'm sure I don't need to remind you. Prices received by our producers have declined by some 15 percent since 1980–81. But at the same time, the value of the U.S. dollar has skyrocketed, by at least 30 percent in the last 2 years. This means that while the price has been going down for our producer, it was going up for the overseas buyer.

In the export market, key buyers have also faced world recession and a heavy debt load, in addition to the high value dollar. Under the circumstances, and sometimes with IMF direction, these countries have tried to limit their imports, including wheat, to conserve foreign exchange.

The level of wheat production remains strong in spite of these problems and with acreage reduction programs in place. This year, it is expected that the U.S. wheat production will be about 2.5 billion bushels, which will be nearly 2½ times our U.S. domestic usage.

It is expected that U.S. wheat end-of-the-year stocks in May 1985 will be down only slightly from last year's level.

The message that our U.S. wheat farmers would wish to bring to this group is that there is ample wheat to feed the hungry and the United States could expand its production even further if the demand were present. The shortcoming in the wheat market today is not one of production but economics and financing.

In recent years, our organization has had to give more attention to export credits, as buyers have faced hard economic choices. The Public Law 480 program, which had been running at about $1.5 billion for all titles and now going up, has been useful to the poorer developing countries. but it is too small to meet but a fraction of the need. This year, the demands placed on the program will increase, especially with the serious drought situation in East Africa.

The Public Law 480 program, I might also point out, suffers from the cargo preference requirement, which diverts some $100 billion in the program for the subsidy on U.S. vessels. I think most of the people are well familiar with that problem that has continued for many years.

The bulk of U.S. agriculture export credit needs are met under the GSM-102 Program, which Mr. Goldberg alluded to earlier. Fortunately, this year we have a more substantial program, and we have it at the beginning of the year. It is important that these loans be used early, so that countries can depend on us and not have to look at other sources.

For some countries, the 102 program is adequate, but for other countries, even easier terms are needed. I might also point out that there is an unused, unfunded program GSM-301, which would allow for the allocation of funds for building facilities that Congresswoman Roukema referred to, and that program, as I understand it, has been held up and not approved because of OMB objections.

Recently, our organization has become increasingly concerned over trade policy issues. Years of work in market development from organizations such as U.S. Wheat can be undone overnight by Government action. It has become painfully clear to us that protective steps taken by Government to protect one sector of the economy will often spill over and affect agricultural exports. A good example of this is last year's action by the Government on textiles, which had a serious impact on U.S. wheat sales to China. Unfortunately, that chapter has still not ended, because new regulations were promulgated on September 7 to further restrict textile imports into this country.

The steel decision earlier this week we hope will be useful in keeping trade disputes with a number of countries at a minimum. But clearly, we will need to watch what happens in those countries.

The United States is learning that trade is a two-way street. I think our organization and others like us would urge the Government to be more aware of the importance of agricultural exports

and develop policies to encourage their expansion. Our wheat farmers in the coming years will need to continue to export at least 60 percent of the wheat they produce. A larger U.S. share of a growing world wheat market will enhance their chances of making a profit and continuing to produce.

In our view, the American producer is the best possible weapon we have in fighting hunger. I have provided the committee copies of a pamphlet that provides additional information on our organization, and I thank you for the opportunity to testify.

The CHAIRMAN. Thank you, Mr. Denlinger.

[The prepared statement of Mr. Denlinger appears at the conclusion of the hearing, see p. 109.]

The CHAIRMAN. Mr. Fondahn.

STATEMENT OF ROBERT D. FONDAHN, PRESIDENT, FONDAHN & ASSOCIATES, INC.

Mr. FONDAHN. Thank you, Mr. Chairman, and I appreciate the opportunity to appear before you this morning.

My name is Robert Fondahn, and I am president of Fondahn & Associates, which is a Washington area firm that provides representational services to the Nation's wheat, corn, and soybean industry.

In this capacity, I serve as president of Protein Grain Products International; president of the American Corn Millers Federation; and vice president for Operations of the International Foundation for Agricultural Development, which is a subsidiary of the American Soybean Association.

I have submitted testimony for the record, and I will try to condense my remarks as quickly as possible.

My testimony today will be directed primarily at title II, and I would like to focus upon the use of processed commodities and what it means not only to the overseas recipients, but also to the U.S. economy as well.

I should also say that my remarks will be based primarily on protein grain products, but that through implication, I would like to have you feel that my testimony and therefore all of my remarks are also addressing all processed commodities.

One of the points I would like to make is that when Public Law 480 was passed in 1954, the major objective of the program was to relieve world hunger through the use of surplus commodities such as wheat, grain, and rice. However, in 1966, the law was amended to place greater emphasis on nutrition. The authority was provided in title II for enrichment and fortification of commodities to improve their nutritional values. What emerged in subsequent years was a range of processed, fortified, and blended products, many of which carry an amino acid profile and utilizable protein content comparable to that of meat and milk, and yet are priced at only a fraction of what the animal proteins cost in most developing countries. My testimony points out a number of these commodities, and I will refer to them in a table later on. Most Americans are not aware of the work that U.N. and USDA nutritionists, working with American industry, did to come up with products that carry a very high nutritional value. Products like soy-fortified corn meal, soy-

fortified sorghum grits, corn-soy-milk, wheat-soy-milk, soy-fortified rolled oats, fortified nonfat dry milk—signify a great advancement in nutrition in this program.

The introduction of processed, blended, and fortified grain products brought a new dimension to title II supplementary feeding programs. The concept was based on the fact that if the prevention of malnutrition is to become a prerequisite to population stability and national development, then supplementary feeding should be expanded to cover a broader base. It should encompass the malnourished infant and young child. It should encompass the pregnant and lactating mother, because her nutritional status directly affects the health of the unborn, newborn, and the young child. For these at-risk groups, food supplementation functions in a preventive, rather than a curative capacity. It provides a form of immunization against mental retardation, inadquate growth, and infant mortality. Expanded into this broader long-term role, food supplementation becomes a primary instrument in national health and development.

There are two tables attached to my testimony that tell a very interesting story. The first table shows the total tonnage of commodities exported under title II from inception of the program in 1954 until today. What we see is a very rapid increase in both funding and commodities from the time the program began until the early 1960's. Then we see a rather high plateau commodity-wise, running between 2.5 and 3 million tons per year. In 1974, during the world food crisis, we see a very, very sharp decline in the amount of title II commodities that were sent overseas. The irony of this, of course, is that the United States provided less commodities at a time when world food needs were the greatest.

Then we see another plateau developing in the 1980's, and this was due, in part at least, to the foresight of Congress in passing the minimum tonnage requirement, which states that no less than 1.7 million tons of commodities shall be shipped each year under title II. I think it is unfortunate, however, that the minimum tonnage level, has not kept pace with world food needs.

The second table shows all of the commodities that are made available under title II, and it tells a great many stories. The one that I will draw attention to is the fact that from fiscal year 1982 until the current year, we have seen the percentage of processed commodities drop from 67 percent of the program in 1982 to only 49 percent of the program this year.

Conversely, we see whole grains at 32 percent in fiscal year 1982 and nearly 51 percent today.

There are reasons for this, of course. One is the emergency in Africa where food must be moved quickly. What the United States can do in Africa is something that I will address in the next few minutes.

Exports of processed commodities have been steadily falling due to budgetary pressures. I think it is a sad commentary indeed that program guidelines have been altered in recent years to dissuade the use of many highly nutritious products because the United States claims that it cannot afford the extra few cents a pound for enrichment and fortification, certainly when it's needed so badly overseas.

What this means to the grain processors and handlers and packagers and everyone else involved in the title II program is, of course, quite obvious.

I would like to make several concluding remarks. First, I feel it is imperative that Congress and the administration recognize the importance of processed value-added commodities, not only to the food recipients overseas, but also to the economy of the United States. For every dollar's worth of farm products exported in processed form, a tremendous ripple effect takes place, increasing employment, personal income, balance of trade, and the gross national product, and that all happens here in this country.

Second, I believe the current minimum tonnage level of 1.7 million tons should be increased in increments of 300,000 metric tons per year through fiscal year 1989. In addition, 75 percent of that annual increment increase should be applied to the subminimum for nonemergency programs, which go almost entirely to the voluntary agencies such as CARE, CRS, and the World Food Program, and with multiyear commitments.

Mrs. Bloch spoke earlier about some of the problems in Africa. I believe if we had multiyear commitments to voluntary agencies, where they could say that the United States will guarantee commodities over a 3-year period, that they would be more willing to move into these countries and not only do their share but also do an excellent job of handling the distribution of commodities.

Of course, if we increase the annual increment, then we must have increased appropriations for title II commodities and ocean freight.

Third, we must not overlook the fact that title II has been an excellent market development tool for building lasting markets for American agricultural commodities. If memory serves me correctly, of the top 10 major commercial customers of U.S. agriculture today, 8 of them are graduates of title II. I feel very strongly that we should view title II in this broader context and that we should not shy away from tying market development to economic development, particularly in those countries which have shown considerable economic improvement.

And fourth, more effective use should be made of title III, particularly in the areas of health and nutrition. Processed and blended foods should be utilized to the extent possible, and provisions should be made to involve the U.S. private voluntary agencies and cooperatives in carrying out specified development projects.

In conclusion, Mr. Chairman, I wish to remind the committee that title II, as amended in 1966, called upon the U.S. Government to maximize the use of highly nutritious, high-value processed products in the food donation programs. The foresight of Congress then has augured well for the world's impoverished and malnourished for the past 18 years. This fact, coupled with the more recent knowledge that processing at home is in the economic interest of the United States, clearly indicates the course of action that must be taken with commodity programming in the years ahead. Thank you.

[The prepared statement of Mr. Fondahn appears at the conclusion of the hearing, see p. 115.]

The CHAIRMAN. Thank you, Mr. Fondahn.

Mr. Healy, the USDA reports that the uncommitted inventory of dairy products of August 1984 is 2.3 billion pounds.

In your opinion, will there be inventories adequate to supply domestic programs here for Public Law 480 and section 416 for the next 3 to 4 years?

Mr. HEALY. Oh, yes. That is far beyond what we have ever been able to distribute under the current programs. That accumulation developed during periods when the United States was producing tremendous amounts of milk surpluses, which we are moving to do away with, and I have no fear that we have the commodities to meet whatever type of programming can be developed.

The CHAIRMAN. Even if those inventories disappear, should domestic and foreign aid programs continue to be utilized?

Mr. HEALY. You know, Mr. Chairman, some years ago, 4 or 5 years ago, I called my counterparts from around the world together to address this very point, the representatives of milk producers in Australia and New Zealand and the European Community and Canada and so on.

There is a phenomenon which tells us that pretty generally, when the United States is producing milk in surplus, the Community, which is the other big milk producer in the free world, is not. When we get our surpluses in control, theirs generally go out of control, so that there always is an adequate supply of surplus milk someplace in the world.

I suggested at that time, and I still think it's a good idea, and I think maybe the Congress ought to look at it sometime and put a little seed money together to have it studied, that we form an international cooperative of milk-producing nations into which we could pool these surpluses, so that this problem that was addressed by AID here earlier, the commitment of resources of underdeveloped nations to distribution systems, which may not have long usage, could be addressed.

We could, under such a thing, guarantee a certain minimum amount of product to developing nations on a long-term basis, 5- or 10-year basis, because the product is always available from someplace, and I think this problem, which we could address first maybe with dry milk, could be expanded to other dairy products and other commodities also. And sometime, maybe we will bring something to you to ask for an international study of this thing. I think it has merit.

The CHAIRMAN. Mr. Denlinger, from your perspective as far as wheat is concerned, would you like to comment?

Mr. DENLINGER. Well, I think one of the problems that our country has had with regard to storing commodities over the years has been that the United States is the residual holder of supplies. We have argued to other countries that we would like them to hold more, particularly when the world has a surplus. In fact, the Canadians and the Australians and to some extent the Community also has a policy of getting rid of their supplies, regardless of what they have to do to cut prices.

So we would support such an initiative, if we could get them to change their minds. It has not been successful so far.

The CHAIRMAN. Are new credit programs needed to utilize wheat?

Mr. DENLINGER. I think the main problem is to get the Government to release what is available now on a timely basis. The quantities are a little better this year, frankly, because Congress got into the act. Last year, there was a real struggle with the Office of Management and Budget, and clearly, quite a number of significant sales were lost.

So the fact that we have a larger quantity does not mean that there will still not be foot dragging. So that is why early programming is important. If a country sees that it's not going to have credit in the United States early in the year, it will look elsewhere. They follow a budget year, just as we do.

The CHAIRMAN. Mr. Fondahn, why are processed foods utilized in the Public Law 480 title II program, rather than whole grains which are cheaper?

Mr. FONDAHN. Well, of course, both types of commodities are provided under title II. We have seen a high utilization of the processed grain products and all processed commodities for a number of reasons: One, the higher nutritional value. Second, most of these products are in ready-to-eat form. Many have been precooked and require very little cooking preparation. The recipient can take the commodity home and simply add water, which should be boiled, and add a few vegetables or strips of meat and flavoring, and they are ready to eat, and they are very acceptable.

We also have done a great deal of work in packaging, so that most of these commodities will last for a good long while in storage. Some products will last almost indefinitely, as long as moisture does not get to the product.

The CHAIRMAN. I think that concludes my questions.

Mrs. Roukema.

Mrs. ROUKEMA. I'm going to pass for now, Mr. Chairman.

The CHAIRMAN. Mr. Hightower.

Mr. HIGHTOWER. Thank you very much, Mr. Chairman.

Senator Melcher started off our testimony today by saying that to produce food is a virtue and a blessing, but to withhold food from those who need it is a sin.

Other witnesses have talked about various aspects of our problem of overproduction and getting commodities to the people who really need it.

But you, Mr. Healy, said that you thought there was not enough real desire to get it out there. That there was no sense of national dedication. I quite agree with you and I think you are correct. But I would like to think a little bit about what we might do to focus that desire and make it clear that there is a sense of national purpose in trying to feed the people who really need it.

Let's break it into two parts, talk a little bit about what we might do and then how the private sector might organize to do the same thing. But, because we do have a distribution of responsibility within the Department of Agriculture and in other Federal agencies is perhaps one of the reasons why there hasn't been a Federal focus on the problem. What is everybody's business is nobody's business and there hasn't been a place where it could all come together, where the rubber could really meet the road.

Now a lot of times when people begin to sense this as a problem, there will be a call for the appointment of a czar. And the Presi-

dent will appoint somebody and say we are going to really tackle this problem and we are going to bring everybody together to do it. I am not sure that that's a good idea, but do you see that there is any kind of need to designate someone in the existing governmental structure or creating a new department or agency and giving them that responsibility?

What do you think the Government ought to do to be sure that we can focus in on that kind of responsibility?

Mr. HEALY. First of all, I think you are doing it today. I think the very fact of this hearing is an evidence that the Congress has great interest in this matter. I think it important that you did invite the Department of Agriculture to come up here. I am greatly disappointed that Secretary Block did not consider it important enough to be here himself. I think it is that important.

I don't think we need a new Government agency, no I do not. I think something has to occur, as occurred in 1961 when President Kennedy took this Public Law 480 and designated it as Food for Peace and put an important official in charge of it and highlighted its existence and spurred the Government to use it. And that's when you saw that tremendous peak on this chart.

I think that from a very high place we must have a dedication and interest and direction to all those people downtown to start themselves in motion. That's all it takes.

Mr. HIGHTOWER. Mr. Healy, we have been hearing, though, that some of the problems that they have vary from place to place in various parts of the world; that in some places it is an infrastructure problem. We can deliver it at the port but we can't see that it gets to the people that need it.

Is there any place you see where those particular problems can be identified and answers found where we could come back and say well, yes, that is a problem but it is not unsolvable? I am afraid that under the existing plan, that they will just say well, this is a problem but there is nothing we can do about it. Our job is just to deliver the food. They can't use it, so therefore we won't deliver it

Mr. HEALY. Well; I don't agree with that either. I think—in the first place. In the second place, the Secretary of Agriculture has 110 or 120 representatives in governments around the world, the agricultural attachés, who are very well informed in agriculture and food matters in the nations where they are posted.

Mr. HIGHTOWER. Do you agree that is the answer that we get, though?

Mr. HEALY. Oh, you do, indeed. And it is the action you get. There is a problem, so we will do nothing until the problem is solved.

Second, I think it is necessary, in all of these programs, that we conduct them differently than just a place and an ability to dump surplus food because that surplus food is an embarassment to us. I think we must use these programs, really, to feed hungry people, to build the image of the United States for having done so, to develop markets as some of my colleagues have suggested here.

Now to do this, we have got to export maybe some facilities and certainly some expertise with this food.

Mr. HIGHTOWER. Well, do we have the ability to do that, under the existing law of Public Law 480?

Mr. HEALY. Oh yes. And under the CCC charter, Mr. Hightower, you ought to get that thing out and read it. We can do anything, under that.

Mr. HIGHTOWER. Oh, I quite agree with you about the CCC charter. This has been one of our frustrations, as we deal with agricultural problems, for years. If they would carry out what Congress authorized them to do in the charter and sell the commodities we wouldn't have some of our problems. I have made the statement so many times—that if you don't believe that something will sell, if you put it on the market, have a garage sale, there will be somebody that will buy anything if the price is right.

Mr. HEALY. You know, you started out talking about Senator Melcher. He is operating on two tracks in this food thing, in the Senate. He started a direction which exists, a direction, the Secretary of Agriculture shall sell food on the world market. And that is pretty firm.

Now we made one mistake when we drafted the legislation. We said something like when practical. [Laughter.]

And we have not done it. We have not done it.

Mr. HIGHTOWER. That was a rather large loophole, wasn't it?

Mr. HEALY. Well, he has driven right through it. But I think if we approach these things to feed the hungry, to develop the image of the United States, and to develop markets for future U.S. production, and are willing to give not only the food, the grain, the processed commodity, whatever, but the expertise and the same limited facility which may be necessary, that we can do these things—and it can be done.

Mr. HIGHTOWER. You are saying to me that under the existing statute, Public Law 480 and the CCC charter, we do have the tools to do it but the executive branch needs the direction to use those facilities.

Mr. HEALY. Exactly; and if you write them one, don't put when practical, or something, in it.

Mr. HIGHTOWER. Mr. Chairman, if I may—and I don't want to impose on the committee with too much time, but could you then take a second look at this and see if there is anything that could be done by the private sector that would bring their contribution into better focus?

Mr. HEALY. Well, I think we have done it. You're going to hear from some dairy people who have put together a scheme which has a high degree of workability. We do confer with our colleagues abroad and develop programs which we think can help. The industry is able to, and has demonstrated, at least my industry, its ability and its willingness to go abroad and look and see what they need and come back and formulate a product which is most useful in these recipient nations.

Yes, I think the private sector has an important contribution to make. I can tell you that the private sector of the dairy industry is very, very anxious to start.

Mr. HIGHTOWER. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Emerson.

Mr. EMERSON. I think the gentleman from Texas has raised some very, very valuable points that need some further attention from

this committee. I certainly would acknowledge that there are problems of infrastructure, transportation, distribution, and other things; and other problems, not the least of which is a matter of diet.

Some countries cannot readily use what we have to give. For example, I understand that's true in the case of dry milk, not that the milk isn't available or that the Secretary of Agriculture isn't willing to donate it, but that the water that they have to mix with it isn't suitable and it causes terrible problems in health.

We've got to be very careful about that. We got into this in our hearings out at the University of California when we were looking at the use of goats in some of these lesser developed countries. That was a very interesting thing that we discovered there, as to how goats may be used where cows cannot for a variety of good purposes.

But you know, I would point out that the United States is the largest food aid donor in the world and for emergency aid to Africa. We give more than any other country, far and away. We can point to inadequacies in our own system.

But you know, some things rile me a little bit. I think we need to do something for the people of Ethiopia. It rubs me a little wrong when we discover that some of the reasons that Ethiopia isn't getting the help that its people require, is that they are spending every nickle they can find in their country to celebrate the 10th anniversary of their Communist revolution and that we can't get food aid ships into their ports because Soviet ships carrying cement are blocking the delivery of food.

I don't think we can lay it all at the foot of the Secretary of Agriculture or at AID, which quite frankly I think is doing an outstanding job.

The CHAIRMAN. Thanks. I'd like to also note that while I understand the problem with Ethiopia, that we have problems not only with that Communist regime, but also with countries like Zaire, where we have very good working relations and we have given many hundreds of millions of dollars of aid where the president himself is known to be worth somewhere around $3 to $4 billion and has unscrupulously manipulated his country's funds.

So, I think that is a problem and we need to look very seriously at how we do get aid to the neediest people, not just to the so-called unfriendly regimes, but also in those places where we deem the people to be our friends.

I certainly concur with the gentleman.

Mr. HIGHTOWER. Would the gentleman yield?

The CHAIRMAN. I will be glad to yield.

Mr. HIGHTOWER. I think it might be good to point out, at this time, to some of our colleagues, to be apprised of it, that we have added an amendment to the continuing resolution section of the foreign aid that will designate 5 percent of the economic support funds for health care to deal with some of the very basic things.

The economic support funds, as the committee is fully aware, is money that is quite often subject to most of the criticism or abuse in many of these countries.

I have felt for many years that all of it ought to be designated but we are not doing that. However, we are making a really signifi-

cant step in designating 5 percent of it. Work on immunization and oral rehydration and some of the things that are the most serious problems of these underdeveloped nations and keep that money from being ripped off and disapplied or misused.

The CHAIRMAN. The gentleman from New York, Mr. Gilman.

Mr. GILMAN. Thank you, Mr. Chairman.

I regret I wasn't able to be here at the beginning of our hearing due to another committee meeting that was underway. I would like to ask at this time that a question that I had planned to refer to the administration representatives be inserted in the record and request that they respond to it, and that their response be made a part of the record.

One concern that is sometimes expressed about the use of additional commodities through the Public Law 480 program is that they may depress prices for agricultural products produced in-country, and reduce the incentive for small farmers to produce more.

One step taken in an effort to counteract this effect is a requirement in the title I sales program that the purchasing country agree to a set of self-help agreements aimed at increasing agricultural productivity among the poor.

In 1981, the Congress passed language that Representative Solarz and I cosponsored requiring that those self-help measures be more quantifiable and verifiable and that their benefits be primarily to those most in need

I would like the Department of Agriculture and the USAID to comment on the progress that they have both made in tightening up these self-help provisions, and I would like them to comment on whether they keep records of the effectiveness of impact of the self-help measures that are agreed to, and have them supply that information to the committee for our record?

The CHAIRMAN. The Chair will designate staff to do such, and it will be made a part of this record.

[The information referred to above appears at the conclusion of the hearing, see p. 107.]

Mr. GILMAN. Thank you.

I would like to address to our panel here, who are all experts on surplus commodities, have they—as an industry—made any recommendations to the developing nations on how they can better help themselves and whether the commercial enterprises, the private sector in our agricultural community, have been able to suggest some worthwhile programs to the developing nations to help themselves?

You are the experts concerning these major commodities and I am wondering whether you have been called upon or on your own initiative have made any suggestions to them?

Mr. Healy.

Mr. HEALY. Yes, sir. We have. My industry has done that. We do export foundation herds around the world for the development of dairy industry in the developing nations, particularly. And we do export expertise to these places.

I have a man in my office who spends a lot of his time abroad helping cooperatives develop, in some viable fashion, so that milk can be produced and marketed economically and successfully in these nations.

Mr. GILMAN. Are most of the developing nations aware of this capability and the willingness to help?

Mr. HEALY. Yes.

Mr. GILMAN. Are you out there, in a number of nations now, assisting?

Mr. HEALY. Oh no, we are not out there. We go when we can develop a request that we come. We do have people around the world selling, as I say, foundation herds to develop the dairy industry. But it is an active, aggressive program on our part, yes.

Mr. GILMAN. Would any of the other panelists care to comment?

Mr. DENLINGER. We have 13 overseas offices in U.S. Wheat Associates. They are very small offices but we supplement those individuals by bringing in technical consultants on a regular basis. I might say that the pamphlet that we provided your committee indicated some kinds of examples of things we have done.

I might say, or cite as one example, China which, because of its history—as you are well aware—they missed out on about 30 years of development and they are very suddenly interested in trying to catch up. U.S. Wheat has helped them by helping to build a model bakery and a flour mill that has just been completed.

Each one of these three major facilities, which we worked on with USDA to help establish, each one of those facilities will be a training center and they will bring in more people to expand the expertise. And that's just one country, one example.

Mr. FONDAHN. I would like to comment, very briefly, on the American Soybean Association, which also has a market development program and has offices in some 11 different offices around the world. A great deal of technology is transferred through that organization to the soybean processors and users overseas.

In addition, the International Foundation for Agricultural Development, which I mentioned is a subsidiary of the American Soybean Association, provides technical expertise through consultants to the oilseed processing and utilization industry abroad. IFAD assistance is often geared to the construction or expansion of a processing plant, or it could be used to develop the livestock and poultry industry.

Mr. GILMAN. It would seem to me that we have a great resounce of expertise in these areas that we should be drawing on more frequently and making them more available to the developing nations.

If you have any suggestions on how we can best promote some of these initiatives on the part of the private sector, I would certainly welcome hearing that. I don't think we do enough of that by way of administration efforts to try to help these nations help themselves.

Regarding the surplus commodities, Has there been any comparison made regarding the cost of keeping these surplus commodities in storage, compared to the cost of distribution?

Maybe you gave that testimony earlier, before I came in, but I would welcome it. If you might—if you have some of that information available, to indicate how the cost of distribution compares to the cost of storage?

Mr. HEALY. I did not bring that with me. We do have it, and I will be glad to supply it to you.

Mr. GILMAN. If you could submit that for us, I think it would be an important part of our record.

The CHAIRMAN. Without objection.

[The information referred above appears at the conclusion of the hearing, see p. 107.]

Mr. HEALY. Mr. Chairman, along that same line, I think there is something else the committee should be aware of. I don't know how they handle this loan program for the other commodities, but with my commodity—milk—they have a double entry system, which is fine. They run CCC like they run any other business. They have $1 and they buy 1 dollars' worth of butter, so they still have $1 in assets. And they have not impaired the CCC revolving fund until they sell that butter at a concessional price, say 50 cents, and they have lost 50 cents or give it away, they have lost $1.

Now the fact is, you see, that dollar was already spent. Some farmer has already made a payment on his tractor with it. It is gone. But because of the bookkeeping process, I believe there is a reluctance—as all of us are budget-conscious—and really interested, that this is false economy to keep the stuff merely so that you have the assets and do not have to admit that CCC spent the dollar, officially spent it, officially admit it.

Mr. GILMAN. And are building up storage costs?

Mr. HEALY. Yes, all the time. This is a very real thing.

This young lady who was here with AID earlier, the Congress finally addressed this and did something about it; But we used to transfer dry milk to the Department of Agriculture to AID at the cost of acquisition. And AID was reluctant to take it because they could move more pounds of some cheaper commodity, you see.

I think the law has been amended now to allow for the transfer at world price and it is very low. And we are moving more of it. But what do I care whether USDA gets charged with spending that money or AID does? Or what do you care?

And these are impediments to the movement of these commodities and they are, in their total, ridiculous.

And I don't say only this administration. Every administration has done this.

Mr. GILMAN. What is the life of the commodity in storage? For example, for dairy products?

Mr. HEALY. Well, dry milk is the most stable, butter is perhaps next. Cheese is beyond that. I would say we first begin to get in trouble with cheese after maybe 2 years. But we are moving enough of it so that we do not have this horrible spectre of keeping it until it rots.

Mr. GILMAN. Do we have any of those problems today? Are we dumping any of the commodities because of deterioration?

Mr. HEALY. Oh, no, no; not mine.

Mr. GILMAN. Does that apply to the wheat and grains?

Mr. DENLINGER. Wheat will store for many years, if it is kept dry and proper.

Mr. GILMAN. How many years?

Mr. DENLINGER. Well, the tombs of the Pharaohs were uncovered and had wheat years ago, as you may know. But I think generally, in this country, we probably still have wheat—I know we have

wheat in a producer held reserve running back to 1976. So it can be safely kept for quite a number of years, if the moisture is low.

Mr. GILMAN. Along those lines, we have a 4-million-ton wheat reserve which was established to respond to international emergencies. I had some small part in helping to create that. In the 4 years since the reserves inception, I understand that we have never tapped that emergency reserve. Can you express some opinion regarding the utilitarian aspects of that grain reserve, since it hasn't been tapped? Do you still believe it's a good idea that we keep that reserve?

Mr. DENLINGER. Mr. Goldberg from the USDA responded at some length earlier, but I will give perhaps a slightly different view. I was a staff person on the Hill when the legislation was drafted, but one of the concerns of the agricultural community at that time was over reserves in general. As you may recall, there was a lot of concern with foreign state debts.

Senators and Representatives felt that the reserve might be used and might be manipulated. So the language was drawn up very carefully that it not be used except as a kind of a back up for Public Law 480 title I.

Now of course, legislation was later established to allow usage of 300,000 tons. And I think, on that particular segment, the real problem becomes one of financing. If you want to increase your funding for Public Law 480 or use its reserve, and there were a number of steps set up that would be required before the 300,000 tons could be used.

And I think what you have had is a bureaucratic problem with the 300,000 tons. I think, as a representative of the wheat organization, our concern would be that the program not suddenly be allowed to elapse and the 4 million tons just come bouncing back onto the market.

Mr. GILMAN. Then am I to understand you still think it's a good idea that we continue with keeping that reserve?

Mr. DENLINGER. I don't think our organization actually takes a position on it. I think they will have to—the National Association of Wheat Growers actually does most of the representational work for wheat growers. I think by the time next year's farm bill comes along, they will have a position for you.

Mr. GILMAN. Would anyone else care to comment?

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Mr. Healy, in the first page of your statement you said our Government, at this very moment, holds tons of nutritious dairy products in storage. It seems that their interest is not attuned to moving these food stocks out of warehouses and into the hands of the hungry. And on the second page of your statement you said that although problems do exist, as they do in any business, we must applaud the efforts of this administration to improve the delivery systems to schools and other institutions.

Are those not contradictory statements?

Mr. HEALY. Well, what I have said there is in this limited area of schools and direct distribution facilities in the United States, they

have done a credible job. In all other instances, they have been quite dilatory.

Mr. SMITH. Do you think that this Government purposely restricts the distribution of surplus foods to suppress prices?

Mr. HEALY. Now, today?

Mr. SMITH. Today.

Mr. HEALY. No.

Mr. SMITH. Did they?

Mr. HEALY. I think this Government and other governments have used surpluses to achieve acceptance of their policy positions in other areas, yes.

Mr. SMITH. Would it follow, cost effectively, if this Government previously had tried to suppress prices purposely by restricting surplus distribution while the target price—let's say for milk, dairy products—is higher than the market? Therefore adding to the deficit and therefore coming under great scrutiny by all of us, including this administration? Does that make sense?

Mr. HEALY. Well, it really doesn't.

Mr. SMITH. But they're doing it anyway?

Mr. HEALY. Well, yes. But let me tell you, Mr. Smith, I have brought to this Congress—in 1981 and 1982, and again in 1983—each time you addressed this very price support system which has developed these surpluses, legislation which would have restricted production, legislation which would have put statutory caps upon Government expenditures, legislation which would have corrected the problem long since, legislation which costs considerably less than the legislation developed in the past by the Congress at the behest of the administration.

The administration talked cost to put this thing on the agenda and then they came up here and induced you people, in the Congress, to act on philosophy rather than cost. Just last year, their own people told them that the so-called Conable amendment to the dairy bill would cost $1 billion more than the compromise bill.

They were up here lobbying for the Conable amendment. They developed the most unholy alliance I have ever seen.

Mr. SMITH. But it didn't pass?

Mr. HEALY. I know it did not, but I'm just saying—you asked a question about the administration and I am answering it.

The CHAIRMAN. Mr. Healy, what is so unholy about the Administration and Ralph Nader working together? [Laughter.]

Mr. HEALY. I shouldn't say unholy, but maybe unusual.

Mr. SMITH. Well, Mr. Healy, you know, the other concern that you have is elementary, simply because everybody knows the House of Representatives pays no attention at all to the administration. [Laughter.]

Mr. HEALY. Well, very fortunately, they did not last year in this instance.

Mr. SMITH. Right. Well, they can't criticize us for that, can they?

Mr. Denlinger, I have noted that you mentioned something which is of interest to me. At the same time we are funding IMF at the tune of another $8.5 billion last year, the direction of IMF, which our personal—the U.S. contribution is something like 20 percent—that the IMF is going to countries and recommending that they limit their imports, therefore limiting the amount of money

they can spend for wheat in this country, and it seems that they are running in direct confrontation, of putting up the money and then recommending to countries that they not buy our products.

But I'm wondering if you know of any countries in the world where the United States loans money under IMF or any other organization, that actually borrows our money and then buys our competitors' wheat?

Mr. DENLINGER. I think the answer that Mr. Pope gave to you is accurate with regard to direct U.S. loans. In other words, if USDA provides a loan, you can pretty well rest assured that the commodity delivered will be a U.S. commodity.

In terms of the IMF loans, it is a much more nebulous kind of thing, because what you are really financing is, in most cases, a restructuring of their debts, and you are not going to be able to attribute anything very directly in terms of what they buy. I can cite countries where we have seen rescheduling of the country's credits, and we, on the other hand, that is, the United States, provide credit for that country to buy wheat. Other countries also provide credit. So the IMF is a kind of thing up here in the sky. It relates to their total——

Mr. SMITH. Well, I use the IMF maybe as a bad example. What I am really trying to get at is, do you think this country loans money to foreign countries, gives them cash, loans them money, and then they buy our competitors' products?

Mr. DENLINGER. No.

Mr. SMITH. You don't think so?

Mr. DENLINGER. No.

Mr. SMITH. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. And I would like to thank all of you for and your contributions. Thank you very much.

Mr. EMERSON. Mr. Chairman, I would like to ask unanimous consent to insert in the record a Congressional Research Service Library of Congress report on the Dairy Production Stabilization Act of 1983, a progress report, and also by the Congressional Record Service, a report on the USDA's commodity inventory.

The CHAIRMAN. Without objection.

[The documents referred to above appear at the conclusion of the hearing, see pp. 124 and 139.]

The CHAIRMAN. The Chair is going to recess the committee with the consent of the ranking minority member, Mrs. Roukema.

Mrs. ROUKEMA. We will reconvene at 1:30.

[Whereupon, at 12:40 p.m., the hearing was recessed, to reconvene at 1:30 p.m. this same day.]

AFTERNOON SESSION

The CHAIRMAN. We are going to reconvene now. Our next panel is Rev. Carl Shelton, director of SHARE; Mr. LaVern Freeh, who is director of international development, Land O' Lakes project; Mr. E. Morgan Williams, who is president of the Cooperative League of the USA.

Oh, I'm sorry, Mr. Larry Harrison is substituting for Mr. Williams, as I understand it. Mr. Harrison, welcome and I apologize for the mistake.

Reverend Shelton, I understand that I can call you anything from Reverend to Brother to—everything but Father. [Laughter.]

You may begin.

STATEMENT OF CARL SHELTON, EXECUTIVE DIRECTOR, SELF HELP AND RESOURCE EXCHANGE, SHARE

Mr. SHELTON. My name is Carl Shelton. I am director of the Self Help Research Exchange, which is an activity of the dioceses of San Diego. And I appreciate the opportunity to be here this afternoon to share with you what should be one of the highest priorities of our Nation.

The testimony that I have submitted, I will just momentarily summarize, and then I welcome any questions that you might have. But the testimony that I have submitted, first of all states that hunger does exist in our Nation, as well as elsewhere in the world.

There have been a number of various prestigious studies recently concluded including the Citizen's Commission on Hunger, Center on Budget and Policy report, the Census Bureau report, 1983 President's Task Force on Food Assistance, all of which concluded that hunger does exist in the United States.

The problem is, there has been no commitment to end this hunger. But in fact, this should be one of the highest priorities of our Nation. Something that is not in my testimony is what I heard earlier this morning the departmental executives speaking. And I believe they were speaking very accurately and sticking to what it is that they have as a mandate. And I heard phrases like we are working within the framework and the intent of the legislation.

There are conflicts of interest. And then add on whatever might be the interest groups. And my testimony states that this is the very reason that hunger continues to persist. There has been nothing that I am aware of that has been legislated to end hunger. All of the existing legislation has a different purpose, either a safety valve for excess production of commodities, means of balancing interests, whether they be in the private sector or the public sector. But there is nothing that is legislated with the intent of hunger, in fact, having the high priority that it should have.

And further in my testimony I state that SHARE, the Self Help and Resource Exchange is a model of workability. That this is a model which in fact through the people being very much involved in their own well-being have as a means with which to bring about their own end of hunger.

I am further stating in the testimony some recommendations. These recommendations include that there can be nothing whatever that is recommended that will have a meaning until first this commitment and priority is established by the Congress and by the President of the United States. After that commitment is established, then there are many things that can be done that will put it in proper focus, because it will be done within in the proper context.

Some of those recommendations include that we should define domestic hunger. To my knowledge, we are talking about something which has not yet been defined. We can't solve a problem

that hasn't been defined. On an international basis we have the infant mortality—IMR—as a very gross measure of hunger, when in fact it isn't a measurement of hunger, but it is only an index that points to hunger.

But in the United States, hunger has a completely different face, and we haven't made the effort to define it. Second, I am indicating that self-help is a model that leads to self-sufficiency as opposed to charities, which if that's all that exists leads to dependency, a no-exit loop.

I am further suggesting that there be no added Government put into place to end hunger, but that there be the commitment of the Government that is already in place to do that.

One of the recommendations I am making is that this committee be made a standing committee. That this is too important an issue for us to look at it occasionally. That in fact, we should have a body that educates and maintains and tracks the ongoing will of the Congress to make a statement that there is no hunger that is acceptable. All activities that work at the alleviation of hunger by their definition state that a little hunger is OK.

Further recommendations that I am making are the Government can, by being Government, without spending any money do many things to help. Some suggestions that we have already found beneficial, by going to the Department of Agriculture and asking that in our self-help model where people pay $12 and pledge 2 hours of work, and in exchange we as a community make available to them a package of food with a retail value of upward of $40.

We have found that this in fact is something that Government can support by making information available through the welfare checks that go out, through the Social Security checks that go out telling people of the program. But at the same time that it will diminish none of their existing benefits and support systems.

The Department of Agriculture can make food stamps redeemable for self-help programs. The tax laws—another recommendation that we're making is that the tax laws can be changed so as to give the same benefits to businesses that support self-help that already are being made available to charity.

An example would be a producer of food who has food and donates it to something which is strictly a charity has the option of taking 150 percent writeoff of the cost of that food. However, the law specifically states that if the recipient does anything whatsoever other than receive it as a handout, that that business does not have available to them this tax benefit.

We are recommending that at least businesses that support self-help have the same tax benefits. In summarizing all of this, I would say that if this committee does but one thing, it is my desire that you put in place the commitment and priority that there is nothing that conflicts with the ending of hunger, because it has a higher priority.

Thank you.

Mr. HIGHTOWER. Mr. Chairman, I might suggest that we recess. There's a vote on the floor.

Mr. CHAIRMAN. We will do just that. We do have a vote on the floor, and as soon as we are able to get back, we will have questions. Please pardon us, and we beg your indulgence.

[Short recess.]

[The prepared statement of Mr. Shelton appears at the conclusion of the hearing, see p. 153.]

The CHAIRMAN. We are ready to proceed.

Mr. Freeh, why don't you begin your statement now?

STATEMENT OF LaVERN A. FREEH, VICE PRESIDENT, INTERNATIONAL DEVELOPMENT AND GOVERNMENTAL AFFAIRS, LAND O'LAKES, INC.

Mr. FREEH. Chairman Leland and members of the Select Committee on Hunger, my name is Vern Freeh, and I am vice president for International Development and Governmental Affairs at Land O'Lakes, Inc., which is a food and agricultural cooperative owned by 350,000 farmers in an 8-State area in the upper Midwest.

It is indeed a pleasure and a privilege for me to appear before you today to testify on the ways in which we can use our agricultural abundance in helping to alleviate world hunger.

I think our Nation is uniquely qualified to take the lead in solving world hunger problems through the use of agricultural commodities. Let me just say that you have a copy of my paper, so I am going to just highlight a few things at the beginning, and then really focus on some of the things that we are trying to do and some of the changes that I feel need to be made to really improve the effectiveness of the program.

I think we are uniquely qualified because we have an abundance of commodities. We are the largest food donor in the world, and we export by far more food than any other country in the world. Our earnings from agricultural sales abroad are essential elements in our Nation's balance of payments, and export sales contribute significantly to the employment and the income in our food processing, farming and distribution sectors. And this, I am sure, you are very much aware of.

So beyond the humanitarian aspects of alleviating hunger in our Nation or alleviating hunger in the world, our Nation needs prosperity in developing countries so they can afford to purchase more of our agricultural abundance. They simply, at this point, are not able to expend the kind of resources that are needed to import all this product that is needed, nor are we prepared and able to provide all of this on a gratis basis.

So the solution really lies in our ability to use our agricultural commodities to assist and encourage the developing countries to meet more of their food needs themselves, and we don't want to put our food in there to the point where it discourages production. Rather, I think we have a tremendous opportunity to use our food abundance to help them become more self-sufficient and more self-reliant in food. And of course this means that we are going to have to encourage them to change some of their policies which currently create disincentives for farmers or discriminate against rural development and rural employment, and they must be encouraged and assisted to do a better job of producing, storing, and distributing their own food, and at the same time, if they do this, they will be developing their economies, so that they can buy whatever food they cannot produce.

There are two ways that we can use our food aid. Food aid can be used to provide immediate financial or nutritional relief, and in those areas where this is necessary, we should do it. However, I feel very strongly that well-designed and managed programs, which involve using our agricultural commodities to help developing countries develop their country's agricultural sectors and overall economies, can do much more.

It can help them to improve their ability to assure adequate diets for each of their citizens through increased domestic food production, more efficient food distribution, and a greater financial capability to import food commercially.

I think that throuqh the years our Public Law 480 program has been effective in promoting economic and market development. If you were to choose one country, Korea is certainly a good example where we delivered over a 25-year period about 1.6 billion dollars' worth of food, and currently our earnings from agricultural exports to Korea are about to exceed in a single year the total amount of food aid that we provided to Korea over two and a half decades. And I think that's a tremendous investment, of using our food abundance, our agricultural abundance, to help them get going so they could actively participate in commercial trade.

Now let me tell you about Land O'Lakes. For the last 3½ years, we have become heavily involved in international matters. We made the decision to get much more involved internationally because we realized that if we were to be successful in the years ahead and wanted to achieve anywhere near our full potential in the world economy in which we operate, we simply needed to position ourselves to better understand and influence international developments, policies and issues, and we needed to become much more actively involved in international trade and international development activities.

Besides, it was our feeling that international development programs, technical assistance and trade policies were far too important to be left to Government alone.

Now let me clarify that. That isn't to say that we don't think Government has a role to play and a very important role. But we are saying that the free enterprise system, American businesses including its cooperatives, were the driving force in the economic development of our Nation, and they can and should be the driving force for development internationally.

So we set three goals for ourselves. First, to develop new international markets and to greatly expand the export sales of our products.

Second, we wanted to become actively involved in international development activities, helping people in other countries to develop their food and agricultural industries, and their economies, using Public Law 480 commodities, cooperative-to-cooperative relationships, and other innovative approaches. We felt that if we did this and they improved their economy, we would be helping to build new markets for ourselves and others down the road. The real potential market in the years ahead is in the developing countries, but if they don't have any money to buy something, that market is never going to be fulfilled. And we said, "We don't want to sit on the sidelines and gripe because nothing is happening. We felt we

wanted to get into the ballgame and work with our Government and make this happen." And when we say "work with our Government," we don't want it to be a government-to-government program; we want to work with Government to help the private sector of other countries develop their private sector. And what that means is, we have to have the assistance and support of our Government and they need the assistance and support of their government. But after that, it becomes a private sector operation.

And we are particularly proud of a project that we were able to develop in Jamaica using agricultural products under title II of Public Law 480, and we hope to utilize the commodities under section 416 as well, if we can get the U.S. Department of Agriculture to give us permission to do so. And we have been debating that with them for quite some time.

The way our project works in Jamaica is that we went first to the Jamaicans—we found a partner in the Jamaican private sector and said:

> We would like to work with you. We've got some long-term goals internationally. You have got some goals here. We'll put our goals on the table. You put your goals on the table. And together; if we work together, we can do better than if we each worked by ourselves. Therefore, we would like to help you develop a foundation, and this foundation would be able to receive surplus dairy products.

Everybody is complaining about all of the tremendous mountains of dairy products, we have said, "Why keep piling more dairy products into caves? Let's figure out some way to use those products for a useful purpose."

After we found a Jamaican partner we went to our Government and we said:

> Will you give us some of those surplus dairy products? We'll go to Jamaica, and we'll set up a foundation. We'll take those products. Then, as a member of the foundation, we will provide staffing to that foundation. That foundation will then contract with a dairy processor in Jamaica that they select to do the further processing of these products, to market the products, and then on the other side, we'll go in and provide the technology for doing the processing and the marketing of the products.

The money generated from the processing and marketing of the surplus product flows back to the foundation, and the foundation then uses that money, which we are projecting at 35 to 50 million U.S. dollars over the next 5- or 6-year period to develop the Jamaican food and agricultural sectors through loan guarantees, through investments, and through grants for large or small projects.

The project is off and running. We feel very good about it. In fact, the board of that foundation had its September meeting, at Land O'Lakes so it could interact with our board. And we've got a whole new group of people on our own board that is getting a first-hand look at all of this international development.

We think what we were able to do in Jamaica with the help of our Government, with a strong partner in Jamaica, with the concurrence of the Jamaican Government, but strictly as private sector undertaking, is something that can be duplicated in other countries, and we hope that other cooperatives—and it is already being done—will duplicate this in other countries.

We understand our Public Law 480 project in Jamaica is the first project of its kind involving strictly a private-sector company like

ours, and we feel good about that. But the main thing is that we continue along this way. And let me tell you, it hasn't been easy.

While we've had good cooperation from AID we have had to run a gauntlet of six or seven agencies in our Government to get approval to do this project, also, almost from the beginning, New Zealand has been raising some questions as to what this is going to do to the sale of dairy products and how this is going to perhaps infringe on their markets.

Our response has been that to invite the vice chairman of the dairy board, the New Zealand Dairy Board, to come to Land O'Lakes to discuss this matter, when we met with him we said:

> Look, let's do the next project like this together. Let's do it in a Pacific basin country. We will provide some of the technology and some of the products, and you provide some of them. Together, let's build new markets. Let's not say, hey, don't do this, don't do that.

They said they are going to consider this, and we hope they do, because we think, again, a private sector cooperative from the United States working with one from New Zealand could put this whole thing together in some country, maybe the Philippines or somewhere. Why not? And again, we would have to have, of course, support from the governments to do it.

But to me, that makes a lot more sense than to, you know, begin to beat on each other because we're going to be doing something that's bad, and in the meanwhile, the people who really need the food and help, they're saying, Well, I wonder what's going on here, and nothing is happening.

Based on our experiences, there are a few things I'd like to mention that I think are very important.

First of all, the funding under title II of Public Law 480, we feel, needs to be increased to meet the existing and potential needs for the kind of programs I'm talking about. I think we simply need to do that.

Second, authorization and guidelines for the barter and sale of title II commodities and wheat and surplus dairy products under section 416 of the Agricultural Act of 1949 need to be issued as soon as possible. The barter and sale of these commodities are critically important to the effective conduct of programs like the one we established in Jamaica, and I think it is unconscionable that private voluntary organizations and cooperatives like ours that wish to get involved, and are saying, "We would like to get in and help on this," have been kept waiting nearly 2 years for these guidelines to be issued.

We think that title III of Public Law 480, which allows our Nation to grant the money it recovers from the sale of agricultural commodities back to those countries in order to finance food and agricultural development projects with forgiveness of the funds if the project is successful—we think that should be expanded.

The self-help provisions of section 109 of Public Law 480 and the title III Food for Development Program constitute, I think, a natural and highly important transitional and development step in assisting countries to enhance their own food security and self-sufficiency. Private voluntary organizations and U.S. food and agricooperatives and agribusiness firms should be given incentives and greater responsibilities for designing, negotiating, and conducting

development programs under this title. I think that's very important.

Let's figure out some way to give more responsibility to the private sector to do some of these things. And maybe we're going to have to build in some incentives.

One of the incentives might be to expand the authority of title III to help finance investments by U.S. food and agricultural cooperatives and agribusiness companies in developing countries, and this could be done through the Private Enterprise Bureau in the Agency for International Development.

Right now, when you hear of the Private Enterprise Bureau, many companies think, "Well, we can go there, and we can get help." And then they find out that it isn't quite that simple. And somehow or other, I think we should do some things that we are not doing there now.

I think we certainly join with such voluntary or private voluntary organizations as CARE in requesting that those private voluntary organizations and cooperatives and companies that have established a record, a successful record in the use of ag commodities to assist countries to enhance their food security and self-sufficiency should be given more flexibility and more responsibility.

I guess I'm saying the same thing I said just a minute ago. Let's help those private sector companies that want to get involved, and that have demonstrated that they can get involved, get more involved.

Such things as refocusing regulations on development goals, streamlining approval and reporting requirements, and using some agricultural commodities to generate funds to improve food and development projects would substantially improve the timeliness and effectiveness of our food aid programs without in any way, I think, doing anything to diminish the oversight responsibility.

Mr. Chairman, there is one other idea that came up today that I feel is a good idea, and that is the idea that was brought up by Mr. Healy for a Food for Peace officer. Maybe we are at the point where we have to go back to where we were in the Eisenhower administration and have somebody who is spending every day saying, "All right, guys, get together. Let's put it together, you know, keep things going," because if it is everybody's responsibility or if it is spread into too many different areas, nobody takes the responsibility. I commend this committee and our system of Government.

I think the best thing we can do is to keep the spotlight on the current problems, keep the pressure on so then things will begin to happen.

I appreciate this opportunity to testify, and I will be very happy to answer questions.

Mr. CHAIRMAN. Just keep talking like that.

[The prepared statement of Mr. Freeh appears at the conclusion of the hearing, see p. 161.]

STATEMENT OF LAWRENCE HARRISON, VICE PRESIDENT, INTERNATIONAL DEVELOPMENT, COOPERATIVE LEAGUE OF THE USA

Mr. HARRISON. Thank you. I am Larry Harrison, vice president for international development of the Cooperative League of the USA. Morgan Williams, our president, is at this time in California at the funeral of former Congressman Jerry Voorhis, and as a consequence is unable to appear here today and I'm here in his stead. I am going to summarize briefly the comments in my prepared statement. Those comments address the overseas hunger problem, a problem with which I am intimately familiar, having spent 20 years in the Agency for International Development.

Hunger is a reality, a really gripping, dramatic reality. In our view, the answer to hunger in the Third World in the long run must focus on the raising of incomes. Food production of itself, food distribution of itself, do not in the long-term solve the problems of hunger. We can see from our own ability to amass surpluses and, in effect, our ability to feed the rest of the world with those surpluses that there is an absence of demand for them. This means that people do not have purchasing power.

We are talking about people who devote something like 80 or 85 percent of their total income to food, and who are often hungry—not only without sufficient calories, but without sufficient protein intake as well.

Consequently, to use the trite metaphor, we focus more on the fishing rod than on the fish. This is not to say that the fish is not necessary in emergency conditions such as those that exist in Africa, but we believe that in the long term, people and institutions have to be concerning themselves with how people acquire the wherewithal to acquire food, if the problem of hunger is going to be eliminated from the world.

Our principal interest in the food availabilities and resource availabilities in the United States is very parallel to the interest that Mr. Freeh has just described. We are involved in two very promising activities in Indonesia and, particularly, in India, where surplus commodities under title II of Public Law 480 are being converted into local currencies which, in turn, are nurturing some very promising cooperative activities.

In the case of Indonesia, we're talking about one area in which in a period of just a few years 35,000 farmers have been organized into village cooperatives. Those cooperatives have been provided with resources through the local currencies generated by the title II monetization program, including the wherewithal to set up processing plants and to provide credit to small farmers who are participating in the cooperatives.

And the result is that in a very short period of time, these people have measureably improved their incomes; their cooperatives are making money.

The most eloquent testimony to this is the fact that people are flocking to join the cooperatives and these cooperatives are operating essentially independent of government control.

The case in India is even more dramatic. I have been in the development business for 25 years. The most impressive development

program that I've seen in those 25 years I saw during my visit to India earlier this summer. It involves also a cooperative, actually a whole system of cooperatives based on dairies initially.

And I want to remind you that something like 80 percent of the milk production in our own society is channeled through cooperatives.

In India, a cooperative that started 30 years ago as a small experiment now involves millions of small Indian farmers who, for the first time in the history of India surely, are buying balanced feed for their 1, 2, or 3 buffaloes, bringing the milk to collection points twice a day, being paid twice a day, making significantly higher incomes than before, and seeing the world very differently.

As an example, 10 years ago, the lines that formed twice a day for the collection included a separate line for untouchables. Untouchable lines no longer exist. Everybody goes together, where they are treated fairly with modern measuring techniques and where they are paid twice a day for the milk that they deliver.

This same model is now being introduced into oilseed production as a result of what we have been able to provide through the title II monetization program in India. The title II monetization that Mr. Freeh mentioned, the project in Jamaica, is similar. It, too, focuses on the fishing rod and is extremely promising in our view.

The issue that is immediately before us is the question of the section 416 authority and what is going to happen with the dairy products and the wheat which are supposed to be, by legislative mandate, available.

As Mr. Freeh has observed, there has been an interminable process of articulating the regulations which are to control how section 416 authority is to be used. In a recent meeting in the office of Senator Melcher, the U.S. Department of Agriculture authorities present indicated a willingness to consider approving, on a case-by-case basis, those section 416 monetization projects which involve dairy projects.

However, they indicated their opposition to the use of wheat in the same way. We believe that with the successful experiments that we and others, such as Land O'Lakes, have engaged in that this kind of authority presents not only an important development opportunity, a way of creating millions of fishing rods, if you will, but also represents a way of diminishing fairly substantially the stocks of surplus commodities that are such a burden on the United States today.

So we are urging, along with several other private and voluntary organizations and other cooperative organizations, that the authority and regulations the U.S. Department of Agriculture is preparing include the authority to fully monetize wheat as well as dairy products. And we urge that this modification to the USDA position be considered and accepted by USDA.

In closing, I would only like to repeat that we do appreciate the importance that American abundance, agricultural abundance, can play in solving the immediate problems of hungry people everywhere. We believe, however, that a part of that abundance should be directed toward longer-term activities which will be more than an emergency response, which will be a lasting, enduring response

to the problem of hunger. And which, in the long run, really is the only way that hunger can be eliminated.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Harrison appears at the conclusion of the hearing, see p. 166.]

The CHAIRMAN. Thank you very much.

Mr. Harrison, to what extent can we transpose your cooperative projects from the international concerns to this country?

Mr. HARRISON. I suspect, although I am not sufficiently familiar with the activities of Reverend Shelton, that the kinds of things he has been doing may be analogous to the kinds of things that Dr. Freeh and I have been talking about, that there may be opportunities to think in terms of the foods that are available for poverty programs in the United States, to serve not only as nutrition but also as a means of generating additional financial resources to attack the question of income for poor families within the United States.

Because after all, the income problem, which is clearly the bottleneck in the Third World, is also the basic reason—is the root cause—of hunger everywhere.

The CHAIRMAN. To what extent do you collaborate with organizations like Brother Shelton's?

Mr. HARRISON. This is the first time I have met Reverend Shelton. My own responsibilities, and for that matter, the Cooperative League's responsibilities in these types of programs, have been focused exclusively outside the country. So it is not unusual that I would not have met him.

The CHAIRMAN. I am not necessarily just talking about Reverend Shelton, but projects like his in the country. I think that they could probably use the expertise. Or maybe there is some cross-expertise that could be utilized.

Let me just ask both you, Mr. Freeh, and Mr. Harrison what do you think of the case-by-case decisions made by the USDA?

Mr. FREEH. I have real difficulty with that. I prefer overall guidelines that everybody understands. And that's true whether you talk about your family or whatever it is. If you lay out guidelines and everybody knows the rules by which the game is going to be played, they can be comfortable. But it I say well, I'm going to handle everything on a case-by-case basis nobody really knows where they're at.

I suppose one could look at it positively and say well, that's great because now all we need to do is bring our case forward and we know we'll get action.

Unfortunately, looking at it from the negative side, one could say that is just another stalling tactic and it could be used that way.

So I guess I personally would feel more comfortable with some straight-out, straightforward guidelines, rather than a policy of bring it to me and I'll take a look at it and we will decide.

The CHAIRMAN. Mr. Harrison.

Mr. HARRISON. I think I am less concerned about that, Mr. Chairman. I think inevitably since these are resources under U.S. Government control, there will be an institution—as I understand it, it will be the International Agency for Development—which is going to have to approve the uses of these resources.

And so, in the real world, I think that happens on a case-by-case basis. And as long as they are not operating under a policy or regulatory mandates which are essentially negative and restricting and which, if I may say, stack the case-by-case review, then I think that's something that almost inevitably will work because that's the way it has to work.

My concern is that the USDA position has been negative on wheat. As I said in my statement, the argument that the Department of Agriculture is making is that these programs will impinge on commercial channels, particularly those of the United States. This is a problem that we have had to face in other kinds of food programs, in title 1 Public Law 480, for example, and we have found safeguards—the usual marketing requirement being the best known of them—which will protect those commercial channels and those commercial interests, not only of ourselves, but of the Canadians, the Argentines, and so forth.

The failure to adopt a case-by-case approach for wheat means that there will be some cases which cry out for help. Haiti is the one that comes to my mind, having lived there for several years. And the country should not be spending any of its precious foreign exchange on wheat to start with.

And simply by the decision which I hope will be changed by the Department of Agriculture, the possibility of using wheat under section 416 will be denied when, in Haiti, there is almost a prima facie case that it should be used.

The CHAIRMAN. Mr. Harrison, you just touched on something that spurred my interest in reference to an earlier statement by my colleague, Mr. Emerson, and that is that he talked about the squandering of moneys to celebrate the state of communism in Ethiopia when the people are starving to death there.

And we have seen various reports, of course the Washington Post article that Mrs. Roukema pointed out to me, and it was mentioned earlier. You are familiar with Haiti, I suspect and maybe you, too, Mr. Freeh.

As I understand it, Mr. Duvalier spent millions of dollars on his wedding and here is a friend of ours who runs a country that is full of starving people, too, suffering tremendously, where people—at the risk of death—tried to venture from their shores to come to ours just for what we call economic liberation, if you will.

Can you comment on that, on those kinds of things, and how they really mar the kind of support that could be gotten them from this country if, in fact, they wouldn't do such obviously blatantly despicable things?

Mr. HARRISON. I was the Director of the AID Program in Haiti for 2 years. We made a particularly strenuous effort to assure that all of the resources, be they food or financial or technical resources, be brought to bear on the intense problems of poverty in Haiti, and the foremost of them hunger.

They were channeled in ways which assured that they got to their beneficiaries. I think that any extensive use of resources by a government in a country as poor as Haiti or as poor as Ethiopia for purposes other than the solution of the pressing problems—which are essentially in those countries problems of survival—is irresponsible. I saw a figure, in reading about the Ethiopian condition a few

days ago, that something like 200,000 people have died, essentially of malnutrition, in a recent period.

I think all of us react very strongly at any significant expenditures of resources that is too low priority purposes, particularly in countries where people are struggling to survive, even though we may be confident that the U.S. Government's resources are not involved.

The CHAIRMAN. Reverend Shelton, currently the USDA is considering strengthening the demands for verification of income eligibility by local feeding centers. In your experience at SHARE, how would such a policy designed to target the food to the most needy affect the participants at private, voluntary, self-help, and charitable organizations?

Mr. SHELTON. It has been our experience that the existing verification requirements, on the individuals, plus the demands placed for reliability on the agencies distributing it are minimizing the impact that the commodities can have down where the people actually do the eating.

Our direct experience has been through our self-help approach to completely abandon the distribution of any of the commodity items. The requirements that were put in place were sufficiently rigorous that people could not receive the commodities at the same time they received the other food package that they had gotten through the self-help program and that these resulted in effectively the needy, who have a great deal of problem with transportation, having to make separate trips from when they normally picked up whatever food assistance they had, to having to make a separate trip.

Further, it has been our experience that the sporadicness of the availability, not knowing when it would be available, makes it so that it ends up being more like a Christmas gift than something for the people who have to eat every day, recognizing that they will dependably have something that they can eat.

So the combination of the sporadicness, the rigorousness that is already there in verification, and the liability that institutions acknowledge and sign, that in many cases require indemnifying the Government in the event of mishandling, ends up with a net result from our evaluation of there was not a benefit equal to the liability.

We have found other ways of distributing a more balanced package of food on a reliable, consistent basis.

The CHAIRMAN. What methods of targeting would you recommend to assure that the neediest persons in the neediest communities would receive the surplus commodities to supplement their diets and prevent hunger and malnutrition?

Mr. SHELTON. I would recommend targeting by beginning something that I think is—you know, I am more a cleric than I am anything else. And something that comes out of the theology of my tradition is people are inherently good. And if we start from that point of view, and start working from that premise, rather than the context that people are basically scoundrels, if we say that people are inherently good, and rather than establishing long, daisy chain of verifications. But instead, hold the local community

to maintaining the integrity of the program, here will be a lot less Government in place and there will be a lot more integrity.

Because if someone is picking up the commodities from a local church that is saying we are going to certify that this goes to the needy people and that's it, that is it, we don't have to turn in long lists, there will be a few that will cheat on it, and that's for sure. But that is in place already.

But the vast majority will maintain an integrity that surpasses what is available right now.

When I am in your church and you know me and I know you, and if I am driving my cadillac to pick up a loaf, I cannot fool anybody.

So that is something that comes up regarding this whole thing of increasing the stringency. In fact, if make the verification and the integrity of the program the responsibility of the smallest blocs of our community, the integrity will be there.

The CHAIRMAN. Mr. Freeh, one of the failings that I believe the Reagan administration has experienced is that he made a promise to try to get the private sector more involved. The private sector taking up where the public sector left off since public financing has been considerably reduced financially in their attempts to assist needy people.

You have talked about the private sector involvement, and you have demonstrated this involvement. I agree wholeheartedly that the private sector should get much more involved than it had been. I am happy to see an organization like yours and Mr. Harrison's which become involved in such projects. I believe it is an incredible opportunity, a mutual opportunity for both the recipient countries and the private sector itself specifically and our country generally. On a domestic level, if the private sector was more involved in doing the kinds of things that help SHARE, then, of course, everyone benefits.

Land O'Lakes has been involved in development, as you have stated. What impact, in your opinion, does this type of project have on the recipient country and the drawdown on surplus commodities?

Mr. FREEH. I will answer that, but let me——

The CHAIRMAN. Just so that I could finish with you, Mr. Freeh, please answer also, why is it that you are so involved? Why is it that your organization is so involved? Is it because of what Reverend Shelton has said, and that is because you are just inherently a good person? [Laughter.]

Mr. FREEH. Maybe we're not very smart. Seriously, it's because we want to help people in other countries achieve what we have achieved, and see it as the only way to build new markets.

Let me just say that like anything else, when things begin to happen and you become involved, it never quite happens fast enough and you feel—you begin to—as one of our board members said when we made the decision to get more into the development, he said, "You know, we've got to get out there. It's like a basketball game. You never really understand it until you're in there." And he said, "Even if we only dribble around a little bit, we're going to be better off than if we're sitting on the bench." So we've

been doing a lot of dribbling around. And when you dribble, you begin to say; "Hey," you know, you begin to see the imperfections.

So I want to say that this administration or the people that we've worked with in the various agencies have been basically helpful and we really feel good about that, and we feel there is a spirit there in AID and other agencies in wanting to get the private sector.

But once you get involved, you say, "You know, if a few things happened, it could get so much better." And I think the case by case is an example, and I certainly agree with what Mr. Harrison said, that everything, of course, is decided case by case. But it's a lot better if you've got some guidelines up front that say, "We are for this, and, you know, if you come with a good case, it's going to go." Whereas there has been a feeling that some segments have not been for this, and so you start out with the feeling that if you come with your case, it isn't going to go.

So it's this whole feeling. So I just want to say, I think our Government agencies are trying to carry through on their responsibilities but there are some other things that they could be doing to really make things work a lot better.

Will our efforts really help? Is our program in Jamaica having an impact? We feel that it's in keeping with the Caribbean initiative and if, in fact, we can generate 35 to 50 million new U.S. dollars, and some new jobs in the Jamaican economy—that's U.S. dollars, so you have to convert that to the local currency—that that is going to have quite an impact on that country, and that's going to help them make this painful transition from where they are at to where they want to be.

And when we look at the kind of people we have been able to attract to head up the foundation and be on the board, these are good solid citizens of Jamaica, it makes us feel that the leadership and everything is there; even in spite of the difficulties, that it is going to have an impact. It's too early to tell at this point, but what we see at this point is very good.

Now as to why we got involved, I would say it's because of our board of directors and our management, which decided that if we really want to be successful, we needed to get involved in developing new markets. It's one thing to talk about the real market growth being in the developing countries because the domestic markets and traditional international markets are pretty mature. But what are we going to do about it in the years ahead? Are we going to continue to be predators on each other's markets, or are we going to develop new markets? That's one decision.

The second decision is, are we going to sit in the background and say to our Government, "Do this. Do that. Why aren't you doing this?" Or are we going to say, "Hey, this is an important ball game. This affects me back on my farm." Therefore, we want to get involved.

Realistically over the long run we shouldn't have to pay the bill for development work but we should be innovative enough to say to our Government "We will provide technology. We'll provide this and that. You provide some resources, Government, and together we can work like some of our competitors around the world have done, where the government and the private sector work together."

There is a role for both of us, and I think that's what we are striving for, and I think this administration is trying to move it that way. We from the private sector are there cheering them on and criticizing at times and pushing and giving ideas and saying, "Hey, we want to be a part of this."

The CHAIRMAN. Mr. Harrison, would you like to comment?

Mr. HARRISON. No, sir.

The CHAIRMAN. Thank you.

Mrs. Roukema.

Mrs. ROUKEMA. Does the Reverend Shelton have a further statement to make?

The CHAIRMAN. I'm sorry. The ranking minority member was not present when Reverend Shelton started off the panel.

Mrs. ROUKEMA. Oh, I'm sorry.

I don't quite know where to begin in asking my questions, because you have given a lot of food for thought, some of which is only slightly——[Laughter.]

In some respects slightly contradictory or gives us a little slightly different perspective than what had been articulated by the members of the administration, particularly Under Secretary Goldberg earlier.

So I would just like to throw out a couple of questions, and hopefully they will lead someplace.

You, Mr. Harrison, in particular, and Mr. Freeh as well, noted the reticence of the administration with respect to the wheat component, adding the wheat component to the 416 program.

Mr. Goldberg stated, in answer to one of my questions, that yes, they were prepared to do that on a case-by-case basis. That was his statement. But obviously, there has not been any movement from your points of view.

Would you like to comment on that? And in your comments, would you observe why you think you perceive the reticence here? What are the economics involved that affect wheat that maybe do not apply in dairy?

Mr. HARRISON. First of all, let me say that it is my understanding and my sense that what we're talking about is a position not of the administration, but of the U.S. Department of Agriculture. The sense that I have is that other elements of the executive branch have a more liberal view of how to use these resources.

Mrs. ROUKEMA. Well, Yes I will agree, it was stated by an official of the USDA.

Mr. HARRISON. Second, let me say I think there has been progress made and I think it has been importantly made because of the interest expressed in the Congress, and particularly by Senator Melcher. I attended a meeting in his office 3 weeks ago, which was also attended by the head of Catholic Relief Services and by a representative of CARE, at which the announcement was made for the first time of the case-by-case review of dairy projects under 416, but at which a rather adamant position was taken with respect to wheat.

Senator Melcher was very articulate and forceful in treating the wheat issue, as indeed were representatives of Catholic Relief Services and CARE. So if you heard today from USDA that they are considering wheat on a case-by-case basis, progress has been made,

and perhaps it is responding to some of the reactions that the original USDA position had elicited.

Mrs. ROUKEMA. Well, the reason I asked the question is to understand the economics of it. Maybe we could take Mr. Freeh's experience in Jamaica as an example, because the administration or the USDA is not turning it down for callous reasons. There have got to be economic imperatives to this. Unless we understand that, I don't think we can get to meaningful reforms, so that we can get to a point where we are actually drawing down some of these surpluses in an intelligent way.

So to go back to your program on dairy, what did you do? I mean, specifically, what do you do when you go to the USDA to get those dairy surpluses released? At what cost to whom, and how is it monetized in Jamaica?

You have said some of this, but I want to go back to the basics on this question.

Mr. FREEH. Well, we first of all we had to find a partner in Jamaica who would join with us in the private sector and say, "This is a good idea," and you need that if you're going to do a private sector program. You have to have somebody in the country who feels like you do, because it's going to be their program, not yours. You're just helping them implement it.

Second, when we found such a partner, we went to AID and we said, "We have an idea here. We will flesh it out. We will try it out on you. Will you help us make it go.

Mrs. ROUKEMA. Excuse me. This is an example of a case-by-case basis; is it not?

Mr. FREEH. It was——

Mrs. ROUKEMA. Or a prototype of a case-by-case basis. Go ahead.

Mr. FREEH. The difference being, if I might, that the guidelines were there for doing a title II project, and I guess I would feel better if the guidelines were also spelled out for 416. And then, yes, they will have to take them case by case. But right now, I'd be a little more comfortable if there were sort of those up-front guidelines saying, "Go ahead and do it," and all that.

Anyway, then we went to AID. We got their endorsement, and then we went to the USDA with AID and got their endorsement. And then, of course, there was OMB, the Treasury Department and Commerce Department, and all of them had to sign off.

But again, we needed somebody from within the Government——

Mrs. ROUKEMA. What was the value of the dairy products that you took out?

Mr. FREEH. What is the value of them? It's the value of 2,000 metric tons of cheese and butter each year. So, you know, we're just having a little impact. But if you multiply this many times, we can have a great impact.

Mrs. ROUKEMA. And how did that translate at the local level?

Mr. FREEH. OK. This goes to the foundation that we set up in Jamaica. We had the Rockefeller brothers fund help us——

Mrs. ROUKEMA. What I really want to know is, why is it economically profitable to make this kind of transfer? How and where do the profits go, and at what cost to our Government and what benefit to Jamaica, in either dollars or infrastructure or something?

Mr. FREEH. I understand. Initiative that we are committed to helping people in the Caribbean, Jamaica included, to help them lift themselves up by the bootstraps, so to speak. And this means, how are we going to help them to begin to get their economy going?

We have, on the other hand, surplus dairy products which are in caves right now. Our idea was, let's take some of those surplus dairy products—it's going to be a cost—but if we can take those down there and generate new money into Jamaica and new jobs and so forth, and at the same time develop the fishing pole that he was talking about, so that we don't have to do this forever, our hope is that, you know, in 5 years things will be moving and we won't have to do it anymore.

So it is sort of providing the stimulus, a catalyst.

Mrs. ROUKEMA. And when you speak of needing more money for Public Law 480, this is the way you would direct those funds?

Mr. FREEH. I would think that in title II and title III, where you would have that opportunity, I'm saying I think we could do a lot more in that area. There's a tremendous need.

Mr. HARRISON. May I make a comment here?

Mrs. ROUKEMA. Yes. I want you to develop it from your perspective. I would like you to respond to the question.

Mr. HARRISON. This looks like a no-loss/all-benefit kind of transaction. In a way, it is. We reduce our stockpiles, which have a cost simply for storage. To be sure, there is the cost of transporting, and that's a one-time cost, but storage continues and continues.

In the case of Jamaica, comparable types of commodities would probably have to be imported through commercial channels, or people simply wouldn't have access to these kinds of products. So there is really no significant loss.

I suppose it could be argued that somebody who was sending cheese commercially to Jamaica is going to lose a small market, but we're talking about a very small market.

Mrs. ROUKEMA. Isn't that really what you're coming down to on the reticence on wheat?

Mr. HARRISON. Let me just take it two steps further.

The first step is this. With respect to the economic forces at work, I really don't think that they are at the root of the USDA position, because the economics that I have just described in the case of the dairy products are essentially operative in the case of the wheat. I think what has been the principal problem for USDA is a much more political problem—in the case of the dairy products, impingement, potential impingement on markets of other countries. New Zealand is just one example. There are a lot of surplus dairy products in Western Europe, as I'm sure you know, as well. And so USDA could see headaches developing in terms of protests from other producers of dairy products.

In the case of wheat, I think their first concern was that if this thing really got going, the 416 program, it would impinge on our commercial sales, so that instead of getting the highest degree of benefit for the Nation, which, of course, will come through the commercial sale, we would, in effect, be substituting the reduced cost of storage for the higher foreign exchange return from the exporting of wheat.

Once again, there is also a political issue here, and that is that there are other wheat producers in the world. Let me say that at least when I was in Haiti from 1977 to 1979, the Canadian Government was selling on essentially commercial terms its wheat to Haiti, and as far as I know, it continues to do so.

Mrs. ROUKEMA. Were you here when I believe it was Mr. Emerson or someone here earlier today said, "Well, why would anybody want to buy something if they're going to get it free?" That's what you're talking about now.

Mr. HARRISON. Yes, that's true. But in the case of Haiti, I would argue, particularly if you have good control on the resources, to go back to what the chairman was saying before, that the country is so poor that if there are ways of getting concessionally financed or grant financed foodstuffs into the country, there is a very strong moral ground to do it that way.

So the first concern of USDA was that so much would be going out that it would impinge on U.S. markets. But also that they would end up in difficulties with the Canadians and with the Argentines and so forth.

Mrs. ROUKEMA. So you are not helping us very much with the precise way in which we can draw down these surpluses.

Mr. HARRISON. Well, yes. I think that the position that is either explicit or implicit in what Dr. Freeh and I have said does give us the necessary safeguarding to go ahead and get this process started. Case by case, in itself, means that one of the things that is going to be reviewed surely is how much of a chance is there that there's going to be a significant imfringement on a commercial market if we go ahead with this.

And if it looks as though there is a palpable case there, then you say well, OK, maybe we ought to put this one on the shelf and look for one like the Haiti case.

We also have, in the case of wheat, these usual marketing requirements calculation. And that can be used with respect to 416 just as it's used with respect to titles I and III of Public Law 480.

So my belief, my strong belief, having worked with these programs in the field is that there are ways of assuring the necessary safeguards and that if you approach it from the point of view of, oh my gosh, this is—as it was described to me a few days ago by someone—a program filled with alligators, then you're not going to want to put your foot into the water.

If you approach it as a program that has maybe a few small—we will call them piranhas—that are in a very large pond, and there are a lot of other fish that you can perhaps pull out that will be very valuable to you, then you take some risks.

And I think it has been a process that we have seen in these last 2 long years of people pressing the Department of Agriculture to view this as more of an opportunity and less as one big hazard. And I think we can do this with this case-by-case approach, for both the dairy products and the wheat products.

And I would again agree with Dr. Freeh that there should be essentially positive guidelines, not the kinds of guidelines that say case by case, but boy, if you approve more than one in a year then you are in trouble.

Mr. FREEH. You know, there was a time when people said the farmer is very leery of these kinds of programs because they are going to displace markets, and all of that. One gets the feeling today, though, that the farmer is ahead of our Government in his thinking on this. And the farmer is saying look, in the long run, if we don't do this, if we don't get the economies of developing countries going, if they don't generate some money, we are just going to run out of new markets and never achieve the market potential that is available to us.

Mrs. ROUKEMA. There are even some in the Congress that have come to that conclusion.

Reverend Shelton, did you want to comment?

Mr. SHELTON. I'd like to just add something which might be redundant. You were not here for my opening statement and I would like to repeat part of it for your benefit, because it addresses the very line of questioning that you are pursuing. And that is we have a problem right now, regarding the context in which we approach the whole problem. That is very specifically that we are not seeking ways to end hunger at the present time.

This morning, as I sat through some of the testimony of the executives from the different departments, I heard phrases like framework and intent of the legislation, conflicts of interest.

The fact is, the existing legislation was not passed to end hunger. The existing legislation was passed to be a safety valve for excess production. Therefore, until we, as a nation, as a Congress, as a President, as individuals, make a commitment that there is nothing more important than ending hunger, all other things are only gestures or activities to balance trade, to do nice things like build the economy. But it is not directed and the intent of the legislation is not feeding hungry people.

So if we go back, and without creating more departments or anything, but just say the intent now is to feed hungry people, my friends here that are so admirably working will now have a different context with which the problem is looked at.

And in reality, you talked about Haiti and Jamaica, they are starving, And whatever resources they have, if we mail more wheat to them, they still are going to be inadequately fed. There is a demand there, but there isn't a market.

Mrs. ROUKEMA. Thank you very much. I appreciate your commentary and I will look over your testimony.

The CHAIRMAN. I want to thank all three of you. What you are doing is absolutely wonderful. You have got one problem, and that is, that there is not enough of you around.

Thank you.

I know we have a vote on the floor. Let me call Mike Lemov, who is executive director of the Food Research Action Center; Dr. Michael Lipsky, professor of political science, Massachusetts Institute of Technology.

The record will be open for any responses that might be elicited from members of the committee to the gentlemen who are about to testify. You both have been very patient, and I know you have been here all day and we really appreciate your concern, but we do have a vote on the floor.

Our ranking minority member is going to leave right now, but she's going to try to get back before you leave. I'm going to be here up until the last final opportunity for me to dash off and vote. If you can summarize your statements, it would be most appreciated.

Mr. Lemov.

STATEMENT OF MICHAEL R. LEMOV, EXECUTIVE DIRECTOR, FOOD RESEARCH ACTION CENTER, FRAC

Mr. LEMOV. Thank you, Mr. Chairman. I will not read my entire statement. I will try to excerpt the highlights.

My name is Mike Lemov. I am the executive director of the Food Research Action Center. Just a word about myself. I just recently started as executive director of FRAC. I'm not exactly a stranger to this building because I was counsel for the House Commerce and Banking Committees for several years before going into the private world. It's nice to be back.

FRAC is a nonprofit public interest law firm, research center, and an advocacy organization which for over a decade has worked to alleviate domestic hunger. Our primary focus has been on Federal food assistance programs because hunger is a national problem which requires a national solution.

Further, over many decades, Federal food assistance programs have proven their efficacy in addressing hunger. It has been disheartening for us and for the National Anti-Hunger Coalition, which is a citizens group which we have organized throughout the Nation, to see America's hungry people losing ground over the last several years.

I just want to emphasize that for a moment.

The poor people, the near-poor in this country, people who are the hungry people, are definitely losing ground according to our data.

In fact, had there not been major cuts in the food stamp, school lunch, and other feeding programs in the past 4 years, it's possible we would not be here today discussing the emergency distribution of surplus commodities.

Just three facts illustrate the losing struggle of poorer Americans since 1980: First of all, as illustrated on table 1 on page 3 of my testimony, between 1980 and 1984 the percentage of real disposable income available to the poorest 20 percent of our population declined sharply, almost 8 percent, while the wealthiest one-fifth gained about 8 percent.

That is a major shift in resources.

Second, Federal budget and tax changes, budget cuts, and tax modifications, cost households earning under $20,000 a year about $19 billion between 1983 and 1985, while on the other hand households which earned over $20,000 gained over $34 billion. That is summarized with a table on page 3 of my testimony from the Congressional Budget Office. That is the source of that data.

The first statistic I cited was based on the study by the Urban Institute.

At the same period, the Food Stamp Program, the major Federal hunger safety net, lost approximately $2 billion per year over this

period and 1 million people lost eligibility to the Food Stamp Program.

That is some of the underlying facts causing what we see as a hunger problem, a domestic hunger problem, today. And we believe it's a sad commentary on national priorities in the 1980's.

So while we are very pleased to be here before your committee, and this is our first appearance, very pleased that the House of Representatives has created this committee, we are saddened that it was necessary in the first place and we hope you work yourself out of a job quickly by leading a solution to one of the most terrible problems in this country today.

We now address, somewhat reluctantly, the issue of emergency food assistance through surplus commodity distribution.

Chairman Panetta, of the Domestic Marketing, Consumer Relations and Nutrition Subcommittee, expressed our perspective on emergency food very well when the following introduction of his surplus commodity bill last year, when he said "If we were to provide additional commodities and cut the Food Stamp Program at the same time, the net result would likely be more hunger and not less."

So Chairman Panetta said he believed that "One of the great dangers of enacting this kind of commodity program is some people will view it as an alternative to other, more important programs that are now in place."

And we just want to concur with Panetta's viewpoint and also commend to this committee some members of whom played an active role in getting the enactment of that commodity bill last year, and also of course Mr. Panetta, cuts in Federal food assistance programs total over $12 billion between 1982 and 1985, according to the Congressional Budget Office.

These benefit reductions have occurred at a time when the need for assistance is greater than ever. The number of Americans living in poverty climbed to 35 million Americans, 1 in every 7 people, during the past 3 or 4 years.

The number of potentially eligible persons for food stamp benefits—in concert with that growing poverty rate—and this is probably the single most significant fact in this testimony of ours—perhaps it is somewhat of a new bit of evidence for your committee. The number of potentially eligible persons not served by the Food Stamp Program has increased dramatically at the same time the poverty population, that is the need for food assistance, is increasing.

In 1980, 10.7 million people were not served but were eligible for food stamps. You might ask why, but in 1983 it was 13.8 million people eligible and not served, at the same time poverty was growing.

What is happening out there?

That particular statistic is based upon U.S. Government data, which we have collected from different agencies. It is in a table on page 5 of our testimony. We call it to the attention of your committee. I think looking into it might be worthwhile.

The demand for emergency food assistance is, in part, a function therefore of the millions of eligible people unserved by the existing Food Stamp and School Lunch Programs and other child nutrition

programs. This demand is also caused by inadequate benefits by those receiving food stamps.

The inadequacy of the benefits is widely acknowledged, although some debate exists over the degree. President Reagan's Task Force on Food Assistance, to their credit, recommended a number of program restorations in food stamps costing in the neighborhood of $300 million a year, which would be a first step in bringing the program up to a reasonable level of sustenance for the recipients and thus minimize the need for some emergency commodity distribution.

Dr. Larry Brown of Harvard University School of Public Health and other citizen's groups have asked for a restoration of 10 times that amount, $3 billion a year.

Our own study of a year ago; entitled "Still Hungry, a Survey of People in Need of Emergency Food" was based on a nationwide survey of about 1,000 emergency food recipients and confirms the need for program restorations. Sixty-two percent of those recipients were receiving food stamps but fully 77 percent, three-quarters of them, reported that their stamps and other resources were depleted by the second or third week of the month, leaving them without any food for the balance of the month.

Only 4 percent indicated that they had enough resources from food stamps to meet the need. Something is wrong in terms of the level of support being furnished by Federal programs at this time. And these programs have, of course, been cut back in the last 4 years.

We are in the process of doing a new survey, 1 year later, which we hope will be ready sometime in the next month or two on whether or not there has been a change in demand for emergency food throughout the United States during the economic revival of the last year.

We'll be happy to share that information with your Subcommittee when we have it available.

The CHAIRMAN. Let me ask you how many pages do you have at this point.

Mr. LEMOV. I have about three more pages.

The CHAIRMAN. Why don't you stop so that I can try to catch this vote.

[Recess.]

The CHAIRMAN. Mr. Lemov, you may continue.

Mr. LEMOV. Thank you, Mr. Chairman, I will be brief. Turning now to the current status of the Emergency Surplus Commodity Distribution Program, the private voluntary sector has made a Herculean effort to meet the needs of America's hungry. But from our perspective they cannot go it alone.

We spoke informally last week with 10 emergency food assistance providers across the country. These people distribute surplus commodities. This information is, of course, anecdotal, but we hope it will provide you with a direction for further inquiry.

The providers told us that the $50 million in administrative funds provided in last year's Emergency Commodity Distribution Act have been pivotal in their decision to continue in the Surplus Commodity Distribution Program. And again, we want to thank you, Mr. Chairman, and Mr. Panetta, and all the members of the

committee for their role in obtaining passage of that bill. It has obviously been very important.

However, there are some serious obstacles that the providers tell us about. First of all, receiving commodities in forms not suitable for distribution. One pantry reported receiving 3-pound jars of honey which are difficult for recipients to carry unless they have a car, particularly if they are old folks or if they are infirm. Also, 5-pound blocks of cheese created similar difficulty.

A second problem is uneven supplies of certain commodities. Several pantries told us that they had received sufficient cheese, but only small amounts of butter, rice, corn meal, and powdered milk. As a result, some families get only one commodity and others the full range of available bonus commodities.

Three, redtape. Virtually everyone said that the paperwork associated with income verification accounting for Federal administrative funds and the commodities themselves have caused a lot of problems, and one provider actually dropped out of the program.

Most disturbing was the report of an audit which we came across with respect to one provider. USDA, of course, is now going to audit these programs, and this was the first one we learned of. Federal officials found 600 pounds, less than 1 percent of the cheese distributed through 16 outlets in 1 county, unaccounted for.

Now, this particular provider is staffed solely by volunteers, and 1 percent shortage, while it is something we don't condone and don't want at all, can be rather modest when you are talking about volunteers. In any event, the provider told us that USDA demanded reimbursement of $1,000 in cash for the missing cheese.

That is the kind of thing, given the resources of these voluntary groups, that could very well scare people into not participating in this voluntary program. We are not saying don't do audits, we are asking that this committee watch the agency to assure that they balance accountability with humanity. Let's not overdo it. The average food kitchen or food pantry does not have a certified public accountant on their staff.

The fourth observation from our informal survey is that there is great difficulty in serving rural areas because of transportation costs. In all, it seems troublesome to us that the same sectors of the povery population who are unlikely to participate in the Food Stamp Program—that is, the elderly, the working poor who have full-time jobs and rural inhabitants—are the same people for whom access to the Commodity Distribution Program is also problematical.

Mr. Chairman, because of the limitations inherent in an existing Emergency Surplus Commodity Program, FRAC has developed with the advice of many of the people in this town and around the country, an alternative approach which we call the Surplus Commodity Supplemental Food Stamp Program. That is a mouthful, and we're working hard to shorten it.

But the gist of it is a supplemental food stamp to apply to commodities deemed in surplus. We have attached to this testimony a summary paper which would describe this program.

The CHAIRMAN. We will include that in the record.

Mr. LEMOV. The key to it is that we would like to see the existing food distribution network, the retail grocery stores, whether they

are in low-income neighborhoods or anywhere else, able to be the outlets for these supplemental stamps which would allow people to get the cheese or milk right through their local grocery stores. And we think if that could be done, it would involve the private sector, it would involve voluntary groups, and it would just make distribution a lot easier.

We understand that Congressman Jeffords, ranking Republican member of one of the agriculture subcommittees with jurisdiction in this area, is quite interested in this and he has queried the Congressional Research Service on some of the problems involved. We are not quite ready to sign off on the supplemental food stamp idea ourselves, although we present it to you for your consideration, because there are some problems about how do you take care of people who do not get food stamps. But if that could be worked out, we really think it's a legislative proposal that you might want to consider.

In conclusion, Mr. Chairman, Federal budget decisions relating to food programs and tax law changes shifting the tax burden toward poor people, the lower 20 percent of our population, over the past few years have had a devastating impact on poorer Americans, on children, and on the elderly. The result has been a substantial increase in hunger in this country.

Commodity distribution programs play a small role in minimizing the impact of these budget and tax decisions, but only on an emergency basis. More commodities in lieu of more adequate food stamp benefits and child nutrition benefits could lead to more, not less, hunger.

A report of the U.S. Department of Agriculture recently issued on the commodity program, which FRAC concurs in, says that in the long run, it's better to rely on the substantial assistance provided by the Food Stamp Program and the School Lunch Program, which provide an ongoing floor of support.

Nonetheless, we commend your committee for looking into the emergency commodity distribution. We think it is an important supplemental temporary aid to the poorer citizens of our country.

We appreciate the opportunity to testify before the Select Committee on Hunger. Our staff, including lawyers, nutritionists, and fieldworkers, are happy to work with you and furnish any information you need in the future and help you in any way in your tremendously important work. Thank you.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Lemov appears at the conclusion of the hearing, see p. 170.]

The CHAIRMAN. Dr. Lipsky.

STATEMENT OF MICHAEL LIPSKY, PROFESSOR OF POLITICAL SCIENCE, MASSACHUSETTS INSTITUTE OF TECHNOLOGY, ACCOMPANIED BY MARC THIBODEAU, RESEARCH ASSOCIATE

Mr. LIPSKY. Thank you, Mr. Chairman. I appreciate also the opportunity to testify before this Committee on the Temporary Emergency Food Assistance Program.

I am reporting today on research that I have conducted with my research associate who is with me today, Marc Thibodeau. He will

also be available for questions. I am reporting on research that is being conducted at MIT. So far we visited in eight States, in four different USDA regions of the country, to see what we can learn about the administration of this interesting program as it has developed from a one-time giveaway to a more institutionalized program.

I might say, in departing from my prepared remarks, that I have spent my professional career looking at social-policy issues as they have been administered from the point where citizens and the Government interact. And my focus in the research and what I want to concentrate on here today, gets to the question of what does the program look like in the field, because this a very decentralized program.

As you know, there are 49 different State plans, and each one depends upon local organizations, voluntary associations, community action programs, and so on in order to get the food to the people. And it is the health of these organizations and their capacity to deliver this program that I think is terribly important and is a viewpoint that isn't necessarily brought up in these halls where issues of USDA purchases, displacement, and other national kinds of questions arise.

With that in mind, I want to draw your attention not to the places where the program is working well, although I can speak to that also, but to some problems that we have identified as we have gone around the country—from very well-organized food banks that you would be quite impressed with in, say, San Jose, to a food bank in Fort Bragg, CA, where the food is given out from a virtual shack, and they don't have room for 2 days' delivery because they have to get rid of 1 day's supply before they can move on to the next.

We have been to inner city areas, we have been to Indian reservations and so on, and I think we have observed a wide range of experiences with respect to this aspect of the service delivery.

Some of the problems that you may want to be concerned with are the following. Feeding organizations have difficulty obtaining reimbursement for capital expenditures such as trucks and freezers because the program is on the books as temporary, although, as you know, with close to 1 billion pounds of cheese still in storage, it does not appear that we will run out soon.

Rural food banks experience hardships because of very high transportation expenses, and fewer local trucking and freezer operations from which they can solicit donations.

Some local feeding organizations lack the capacity to grapple with the required paperwork. They fail to seek reimbursement, and thus, they bear a burden of cost that is due to their weaknesses in organization, not to their strength. There are some food banks that, in a sense, donate that part of it that they could ask for Federal reimbursement, but there are many others—in fact, I would argue it is the norm—where the food banks are simply unable, by virtue of their organizational capacity, to make those claims.

As surpluses are likely to exist through the end of this decade, the committee can address these problems by placing TEFAP, as it is known, on a more stable footing. This would enable State governments and local feeding agencies to plan more effectively.

The committee can also recommend authorization of administrative money for capital goods. The TEFAP in its narrow sense is involved only with Federal commodities, and of course, food banks distribute a wide range of foods. However, the fact that they are so useful to communities and realize many times over the initial investments that are made in them speaks to the desirability of a committee with this charge to urge ways that the Federal Government can contribute to the capital needs that food banks have, for which they often can't raise sufficient funds.

The committee could seek to require the States to honor special reimbursement claims of local organizations such as rural food banks with unusually high distribution costs. The committee could follow the lead of the State of Washington by recommending that States offer technical assistance to food banks and other distribution organizations. Such aid would help ensure—as it does in Washington—that community agencies do claim their share of administrative expenses, as well as take advantage of innovations in food distribution management.

I would add that the technical assistance is necessary because there are many parts of the country which lack distribution units. In Florida, for example, there is no food distribution in 15 of 67 counties. In Texas, there is no program in 10 counties. And this is because the States have sought, no doubt, adequate distribution agencies that could do the job responsibly, the infrastructure, the voluntary sector, is not well established there, and they don't have a tradition, or organizations haven't arisen, that could provide for this.

All the more reason to create either some kind of threshold demand on the States or provide the States with the capacity to go out and help create organizations where they don't exist now, thereby, depriving Americans of what people in other parts of the country similarly situated are getting.

Although the Federal Government has allocated $50 million per year to assist with expenses of distributing commodities to households, in general less than half of this sum goes to local organizations.

Moreover, these moneys represent only a part of the average cost incurred by local feeding organizations in program administration.

Now, if you agree that the health and welfare of voluntary feeding organizations are critical to the emergency feeding effort, as I have just argued, there is reason to be concerned that local churches and soup kitchens and private donations essentially subsidize Federal feeding efforts.

The committee can try to rectify this anomaly by recommending the full Federal share of the cost of surplus food distribution be paid to local organizations. The administration of the program would still be extremely cheap because of the high degree of utilization of volunteer labor and donated goods, facilities, and services.

Another problem of funding that arises is that since every Federal dollar retained by the State's program administration means less aid for feeding groups, States are cross-pressured to minimize their own expenditures so that distribution sites can claim more. Or, if they contribute a lot to the local feeding efforts, the States have to absorb, perhaps with less efficient administration, the cost

of paying for the program because there's only one lump sum that goes to the State, some of which is supposed to be put out to the local feeding groups.

TEFAP was founded on the notion that it would distribute surplus commodities through voluntary organizations whose place in the community and organizational structures would permit a minimum of regulations and bureaucratic involvement.

The use of voluntary organizations in this program also fits a currently fashionable and bipartisan interest of encouraging the private and voluntary sectors to play larger parts in solving social problems.

Unfortunately, concerns over recipient eligibility for commodities is leading to destructive requirements that local community groups be held accountable for closely verifying claimants' eligibility. This matter has been addressed before, so why don't I just summarize it from my own point of view here.

There are two questions. Local programs are being very closely audited to a degree that is inappropriate, as my colleague just pointed out, where small amounts of commodities are the subject of exhaustive audits, when the commodities are probably being used for decent purposes.

The standard of the auditor may be that there is no receipt, or someone doesn't remember what happened to particular goods. But it is likely the case, as I have heard stories around the country, that when cheese is in excess at a distribution site and they have to get rid of it that day because it will spoil, or butter may spoil, what you do if you are a smart and caring person is you call up a local orphanage or a home for the elderly or a local day care center and you say, come and get it. And you call somebody who is deserving. And if there is not close accountability for that cheese, it doesn't mean that the person has not responded in the spirit of the law under somewhat adverse circumstances.

These are not acceptable auditing practices, or not acceptable practices for the purposes of auditing, but they are acceptable in the spirit of the program. And the costs of close auditing, in terms of the feeling of intimidation in the field, I think is quite high.

The second major issue with respect to the close eligibility requirements is that many of these organizations are beginning to be asked to be extremely careful that everyone is income eligible. As you know, there is a provision in TEFAP that people can self-declare their income eligibility. But this generous provision is being driven out by States and by messages down to the field to local feeding organizations that they have to be extremely careful about who is getting the goods. The result is that instead of celebrating the generous and altruistic nature of the food banks and the church groups and the various organizations that have responded dramatically to the problems of hunger, we are turning them into quasi-welfare agencies, which they are not equipped to be by virtue of administration, since they are voluntary organizations, where people come in off the streets and spend 2 hours a week. Volunteers are not prepared to do this. They are not prepared to ask their friends and neighbors for proof that they are poor. And moreover, this is not in the spirit that these organizations were originally founded on.

The very fact that these organizations exist speaks to a tremendous voluntary urge to solve problems when they arise in the community. And this particular requirement is destructive of the basic impulses of these organizations.

Now you might say, well, don't we have some obligation to be sure that only the deserving people get it? And I would agree. But you have to apply a principle of proportionality here. We are talking about organizations that may deliver goods whose value equivalent is $12 every 3 months. And so the tremendous effort that is beginning to be put into place concerning the checking of eligibility of recipients is misplaced in proportion to the kind of situations that at worst people are getting away with.

I am concerned about this. People in the field are concerned about it. Some organizations are rebelling. Other organizations are being cynical about it and saying: "Well, sure, we'll go along with this administrative practice. We will give lip service to it but we won't honor it in practice."

And I think it's the kind of situation that the committee should try to find a way out of before it gets to be the heavy hand of Government leaning on the voluntary organizations.

My proposal would be to focus on the organization and its eligibility. It seems to me entirely proper to have the States designate organizations which demonstrably serve low-income people and to use that—or use a community standard of preponderance with respect to eligibility—using the notion that an organization preponderantly serves eligible people—rather than checking each person for eligibility with all of the verification issues involved.

In closing, I would like to comment on the considerable discontent with the program that is expressed by many people with whom Marc and I have talked. Generally, their complaints focused on the vast amounts of energy and indeed, the high financial costs that are expended to distribute a relatively small amount of food.

It is often not reliably available. It is not available, at the local level, with any frequency.

This discontent is notable, particularly among people associated with organizations like Community Action Programs that are not regular food handlers. Organized food banks, on the other hand, are more content to use surplus Federal commodities as useful supplements to the other food donations they receive.

This committee should take this criticism as an important point of departure. The emergency feeding programs serve many hungry people who are not enrolled in or are not eligible for food stamps and other feeding programs. This program could be a vehicle for truly serving the hungry by distributing a wider range of commodities on a more regular basis, including commodities expressly purchased for TEFAP outlets.

TEFAP could also be used to pursue food stamp outreach, to ensure that all eligible commodity recipients receive the benefits of the more broadly helpful USDA program. The committee could work with the food bank community to develop and encourage food banks where they currently don't exist and facilitate the expansion and modernization of existing food banks.

An expanded food bank network would draw vastly more food resources to the hungry than CAP's that simply act as Federal cheese conduits.

In short, I urge the committee to treat TEFAP as a program that might be able to make a unique contribution to serving the hungry, rather than one that serves as simply a sop for surpluses, however worthwhile the current program to distribute Government food surplus to people in need.

RESPONSES TO QUESTIONS FOR MICHAEL LIPSKY

QUESTIONS SUBMITTED BY HON. MICKEY LELAND

Question. From your survey results, how can you explain the fact that only two States were requesting bulk nonfat dry milk for in-state processing, despite the abundance of this surplus commodity and the Federal reimbursement available for processing this milk?

Answer. There are three factors that explain the lack of in-state processing of bulk nonfat dry milk.

First, the $0.14 per pound level of reimbursement is apparently not adequate under current cost-benefit calculations. Few States have received bids that approximate the flat-rate level of reimbursement. It is not uncommon for bids to exceed the flat rate by $0.05 to $0.15. For example, Illinois—one of the two States that process nonfat dry milk—received but one bid, $0.29, during its first round of solicitation, exclusive of packaging and transportation. Illinois now has a processor which will instantize the product for $0.174. The $0.034 loss it incurs—exclusive of transportation—is offset by funds earned under the State's cheese processing contract. Its processing contract specifies a per pound price approximately $0.02 lower than the $0.125 available reimbursement.

Second, the USDA does not absorb the cost of transporting the raw product to the designated in-state processor as it does when cheese is processed or cut. Costs for this aspect of the transportation expense are the State's responsibility. This added expense, combined with the States' inability to find acceptable bids, inhibits participation.

Third, not many concerns possess the necessary equipment. Few bids have been received by States in response to public offers. State officials indicate that few processors have the equipment needed for instantizing the dry milk and that little excess capacity exists in those companies with the proper machinery.

Question. Did you find that rural areas do not receive an equitable share of surplus commodities? How might the Federal Government assist these isolated areas in their distribution of emergency food donations?

Answer. Residents of rural areas do not have access to free commodities to the same extent as their urban counterparts. The major reason for this difference appears to be the lack of a developed network of distributing organizations in some rural areas. However, a heavy urban bias, which characterized the special distribution program in its early days, has now diminished and States have more fully extended the reach of the distribution network.

Nevertheless, supply problems persist for many rural areas. There is, at times, an absolute shortage of storage capacity, and a smaller number of concerns from which storage donations may be sought. For example, distributing groups in southern Indiana have in the past indicated that they will not participate in the program during the summer months due to a lack of available cooler/freezer facilities. In addition, given the lack of a local distribution network, some rural residents must drive as much as 50 miles round trip—when transport is available—in order to pick up their block of cheese.

It should be noted that the difficulty of reaching shut-ins is exacerbated in rural areas. Also, rural distributing organizations that we have spoken to have the impression—an impression which we have not independently verified—that product delivery to urban areas is more reliable and that a greater variety of foods—out of the seven TEFAP commodities—is available to them.

The Federal Government could address rural concerns by insisting that States ensure that distribution capacity exists throughout its jurisdiction, while leaving to the States responsibility for achieving this end. Additional assistance might be offered by aiding food bank development directly where needed, above and beyond the limits of TEFAP.

[The prepared statement of Mr. Lipsky appears at the conclusion of the hearing, see p. 195.]

The CHAIRMAN. Thank you, Dr. Lipsky. Would your colleague like to make any statements?

Mr. Lemov, from your organization's many studies of the private, nonprofit food distribution centers, do you find that there is a continued need for emergency food assistance across the Nation?

Mr. LEMOV. Definitely. We did a study, about 1 year ago, which found an increasing demand and need for emergency food. We don't know what has happened between November 1983 and now. And as I said, we are in the midst of a survey now to see whether the economic revival which has hit certain parts of the country has also changed that situation and improved it.

But we will report to you as soon as we have the results of that updated survey.

The CHAIRMAN. Let me ask you, are private donations adequate to fill the need now?

Mr. LEMOV. We are asking that question in our current survey. I would venture an opinion on that. I don't think it's possible, given the demand. And I had a conversation with Second Harvest executive director yesterday, and I don't think it is possible for private donations to come close to filling the demand. Not even close. But I stand corrected, if our survey shows me wrong.

Mr. LIPSKY. If I may comment on the question?

The CHAIRMAN. Certainly.

Mr. LIPSKY. My interviews with food bank directors suggest two things. One is that high-protein goods are not usually available in sufficient quantities in the private sector and TEFAP is extremely valued by people who are responsible for normally feeding the food pantries and soup kitchens because they appreciate the solidity of the cheese as a contribution to their—to the general overall package.

They wish that the variety were greater, particularly with rice in some places, where there are major complaints that it is probably the item that would be most valued, second to cheese, but it is not as available as it might be.

There is some question in my mind, and I would like to look into this further, as to whether food donations are going to remain high because of a belief in the private sector that the Government is going to be making concerted efforts in these areas. And I think it's important to both continue the surplus commodity programs, at the same time recognizing the limitations that the current program has, so that the effort that's being made in the voluntary sector does not diminish because people think that the Government program is taking over the ball game.

Mr. LEMOV. Mr. Chairman, may I come back for one moment to your first question to me, which was what is the situation in terms of need today, as contrasted to a few years ago?

We did get some preliminary results from Montgomery County, which is I am told the richest county in the United States. I wouldn't want to quibble over whether it's one of the richest or the richest, but in any event they told us by telephone a day or two ago, that they will be releasing a study within the next month of the county's emergency food needs.

Preliminary results indicate a one-third increase in 1984 over 1983, a shocking increase in view of the economic situation. And that in the past year they opened up the first two soup kitchens that they have ever had in Montgomery County, MD, and they are opening a third shortly.

The CHAIRMAN. That is incredible.

Mr. Lemov, you say that there have been cuts in the food stamp and other nutritional programs while the Reagan administration claims that there has been an actual increase in those programs. What is your view on this issue?

Mr. LEMOV. Well, the figures that we are relying on, in terms of an overall loss of about $7 billion over the last 4 years, is based on the Congressional Budget Office data, which we are citing. And that is included in our testimony.

In other words, I guess it's a question of definition. The losses, in terms of people who would have been eligible but who are not eligible now because of new statutory or other program requirements, there is no question. The total amount of money going into the Food Stamp Program now is higher than it was in 1980. It's absolutely correct that it is higher.

However, the number of poor people is even higher than the additional money, so that in absolute numbers there has been an increase in Federal funding for the Food Stamp Program over the last few years, but the demand has gone up tremendously, thus outstripping that modest increase.

I hope I said it correctly. In other words, we now have 35 million Americans living at or below the poverty line. That's an increase of 35 percent in the last 4 years dramatic. The largest increase since the Census Bureau began keeping these statistics.

So although it is true that Government is spending more money on food stamps now than it did in 1980, absolutely correct in terms of the administration's comment, the demand has gone up much greater. And therefore, we have not met the need.

And I think the standard here is human need, not dollars and cents.

Thank you.

The CHAIRMAN. Let me ask you, will you be doing anything different as the new head of FRAC?

Mr. LEMOV. We are going to try to be receptive to this committee's needs for information, and responsive most of all to the people out there, the tremendous numbers of people who have big problems in hunger and poverty, and do our best.

The CHAIRMAN. I appreciate your references to what was done by Congressman Panetta, who is also on this committee. He has done a great job in the time during which he has been chairman of his subcommittee of the Agriculture Committee; and we appreciate his involvement with the Select Committee on Hunger.

I must say that while we would love to take some credit for what he has done in terms of advancing the cause of feeding the hungry, he has really stood out strongly.

Mr. LEMOV. We would extend our thanks to you, Mr. Chairman. You have undertaken a big task here, and it is not—perhaps it's not as glamorous as some of the——

The CHAIRMAN. We haven't found this committee to engage in any glamour whatsoever. [Laughter.]

Mr. LEMOV. In any event, you also deserve credit for taking the lead, and we are looking forward with great anticipation to the report and recommendations of the committee. It is sad that in this day and age in this country, we have such a large problem. But it can be solved.

The CHAIRMAN. I'm glad you feel that way, and we await with great anticipation for you to give us your new ideas.

Dr. Lipsky, what would you recommend to the USDA to better target their distribution of surplus commodities to more of the needy people?

Mr. LIPSKY. I think I covered that to some degree in my testimony, but let me elaborate that there are still vast gaps in the coverage in the country because the States are so dependent upon finding community groups to do the distribution, so that there is a need to cover more of the map.

And simply because the States are given the opportunity to run the program does not mean that there is a national policy with respect to every person in all corners of the country. So I think this is an important, very obvious suggestion that deserves attention.

I would also talk about—the question of targeting often gets to the question of whether or not you are focusing exactly on the person that is the deserving person because you have limited goods. And my view is that this program is the one program in the Federal arsenal whose rhetoric and whose practice permits us to feed people who say they are hungry.

The very looseness, or the relative degree of looseness of eligibility determination in this program is a sign that we are still caring more about whether people present themselves and say they are hungry than whether or not their income tax form adds up to the right numbers.

And so my proposal, to focus on the eligiblity of organizations, which I believe has precedence in other Federal programs, is more humane, is more appropriate in view of the costs and benefits that would be gained. The costs would be much less in terms of auditing and administrative practice, while the gains would be a degree of freedom and recognition of the legitimacy of the voluntary sector to practice its notions of volunteerism in its own way.

What we're doing to these organizations now is turning them into Federal agencies, at least with respect to this one program. And I think that with all the talk about the voluntary sector being an autonomous third sector, so to speak, that has an important role in social policy, to turn around and ask these organizations to be quasi-welfare agencies, as I said, is inappropriate and disrespectful of that autonomy that is celebrated by the same people who are critical of some of the eligibility issues.

The CHAIRMAN. You suggested earlier that there was a dichotomy between the programs that worked and the programs that didn't work as good. Can you tell me what percentage of the programs you found were more effective than the others?

Mr. LIPSKY. I couldn't imagine a figure that I could give you. Don't forget that this is a highly decentralized program, and so much depends upon the degree of organization that existed prior to

the program. Food banks started before the Federal Government got involved in this, and those that were in place have been able to use the program well.

I think if you visted any one of dozens of food banks which are modern and have the correct facilities and have forklifts, have coolers and have adequate warehouse space, that have sophisticated management, that have a cadre of volunteers, you would be delighted to have total confidence in their operation.

Organizations that have started up more recently that don't have such facilities, and the community action programs and other quasi-community organizations that are not regular food handlers find the program extremely difficult to handle. They pay a great cost for being the food distributors. They feel caught in the bind that they want to get this critical good to people, but it is hurting their organization.

In some work that Marc Thibodeau did for us, we know, for example, that the Claire, MI CAP lays out about $8,000 a month in costs to distribute cheese to its constituents, while receiving only $2,000 a month in Federal reimbursement. In the Lansing CAP, they find that while they are getting back $15,000 in reimbursed expenses, they spend $50,000 to put the program out in a proper way.

These activities come at the expense of the other community programs that they normally run through the use of their community development bloc grant. So if the CAP's in Mchigan have only a certain amount of money and they have to put more and more into this program, which has a certain urgency to it, they are not doing other things. They are not doing outreach programs, they are not running community gardens programs. They are retreating to this program at the expense of other concerns. And since giving out food is not something that they are well equipped for, and not something that they are doing supplementary to their other activities, it is extremely costly and expensive.

The CHAIRMAN. What administrative aspects of TEFAP appear to mostly discourage participation of voluntary and charitable organizations?

Mr. LIPSKY. I would mention the issue of eligibility verification, and the auditing pressures that are increasingly being visited on some of the—in some places in the country. Other than that, the USDA's inability to find a way to get food to the food banks on a particular day is extremely disconcerting to these organizations, particularly those that have to offload trucks through voluntary labor rather than simply run a forklift through a pallet and take it off the truck.

You heard this morning testimony that focuses on the delivery issue, and while I am not an expert in the mechanics of the way exactly the USDA sends the trucks out, so to speak, I do know that this program problem has been flagged so often in every region of the country that it is a problem that could be solved if higher priority was placed upon the truckers' ability to be at a particular site at the right time.

Mr. LEMOV. May I comment on that last point?

The CHAIRMAN. Please.

Mr. LEMOV. That distribution problem is a very serious one, obviously. In building a food distribution network with a commercial network for emergency commodities, to some extent seems to be socially wasteful. That is why our idea of having a supplementary food stamp which would be issued to a person who either qualified for food stamps, or else another person in need of emergency food, and then have that redeemable at their local grocery store for the particular kind of commodity in question—it would be a commodity-designated food stamp and a supplement to the regular food stamp. Mike? I don't know. Maybe Professor Lipsky disagrees with that. But maybe that would help in some of these distribution problems.

Mr. LIPSKY. I would agree with it. I have been going around saying that the American supermarket is the greatest achievement of American capitalism. It produces wide varieties of food at a relatively low unit cost; and the bulkiness of the distribution system for emergency food distribution is extraordinary. We would never invent commodity distribution if we didn't have surpluses. And yet, the surpluses play an important role.

One of the advantages and additional good qualities of the FRAC proposal aborning is that it would take currently—it would take goods that the Federal Government would purchase, and instead of running them through warehouses, would put them directly into the supermarkets to avoid those other costs.

The CHAIRMAN. Well, what about the cost of distribution in the supermarkets themselves? What about the increased overhead?

Mr. LIPSKY. Well, I don't know——

Mr. CHAIRMAN. Or are you depending on the good will of the supermarkets themselves?

Mr. LIPSKY. As an outside critic, totally objective on this subject, I would wonder, or I would suspect that supermarkets would find a way to accommodate this because it would bring people into the store.

The CHAIRMAN. Yes; but are these people their truly desirable customers, or potential customers?

Mr. LIPSKY. Well, I'm not sure that it raises any additional problems that are not already presented by whether food stamps are redeemed by supermarkets.

There are, as you point out, some problems that people have with respect to whether or not they are ashamed to display their poverty status by using the food stamps in their neighborhoods. And some stores may want to discourage the food stamp recipients. But the food stamp recipients are spending money in stores.

I don't think that's the major problem with this proposal.

Mr. LEMOV. Actually——

The CHAIRMAN. Well, I'm not talking about the users themselves. I'm talking about the stores and the owners of the stores. Would they be willing to take on the extra responsibility, assuming that there's an increase in customer flow, there will be an increase in the need for employing more people to handle it?

Mr. LEMOV. May I comment on that? Again, this idea is in the development stage, but we envision that the stores would get paid through the food stamp process. In other words, they would make

the same kind of return they make on food purchased with food stamps.

We are talking with the food industry about that, and we certainly hope that it would work on an economic basis, thus utilizing a single distribution system and more convenience for the recipients. They wouldn't have to go to a separate place to get the commodities.

Mr. LIPSKY. My understanding, too, is that one could do this by simply making a unit of cheese eligible that was on the shelf, just like it is today. And the notion would be that it would be—if you can buy a pound of cheese now with cash, you could also pick up a pound of cheese with the designated specified stamp. So it would increase cheese sales because people now have cheese coupons to purchase with. Much like if your local supermarket is inducing you into the store with a coupon. The stores would welcome this because it would be additional inventory.

The CHAIRMAN. When you get a qualitative response to your analysis, would you please let us know?

Mr. LEMOV. You will be the first to know.

The CHAIRMAN. We have other questions, but we are hours late, and you've been very patient, and we want to let you go now.

The purpose for which this committee hearing was called, having been served, we will now adjourn.

Thank you very much. You were wonderful.

[Whereupon, at 4:30 p.m., the hearing was adjourned.]

[Material submitted for inclusion in the record follows:]

PREPARED STATEMENT OF HON. MARGE ROUKEMA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

MR. CHAIRMAN:

WE ARE HERE THIS MORNING AS OUR COMMITTEE CONTINUES TO INVESTIGATE HUNGER AND MALNUTRITION ACROSS THE GLOBE AND HERE AT HOME. OUR PARTICULAR TASK TODAY IS TO DEAL WITH WHAT I'VE COME TO CALL "THE PARADOX OF HUNGER;" THAT IS, WHY, IN A WORLD BLESSED WITH SUCH AN AGRICULTURAL BOUNTY IN SOME REGIONS, DO PECPLE LITERALLY STARVE TO DEATH IN OTHER REGIONS?

THERE CAN BE NO DOUBT THIS IS A VERY COMPLEX QUESTION AND ONE THAT IS NOT GIVEN TO QUICK AND EASY ANSWERS.

THE FARMERS OF THE UNITED STATES ARE THE MOST PRODUCTIVE IN THE WORLD. AS A RESULT, THIS NATION HAS HUGE AMOUNTS OF SURPLUS AGRICULTURAL COMMODITIES AND THE DESIRE TO GET THOSE SURPLUS COMMODITIES INTO THE HANDS OF THOSE WHO SO DESPERATELY NEED THEM. HOWEVER, THIS IS WHERE THE COMPLEXIY OF THE PROBLEM MANIFESTS ITSELF.

MUCH OF THAT SURPLUS IS NOT ACTUALLY OWNED BY THE U.S. GOVERNMENT OR IS ALREADY COMMITTED TO A NUMBER OF FEEDING PROGRAMS. FURTHERMORE, THE PROBLEMS ASSOCIATED WITH THE USE OF U.S.-OWNED COMMODITIES ARE MANY, RANGING FROM PROCESSING TO MARKET DISPLACEMENT TO DISTRIBUTION TO TRANSPORTATION.

I AM HOPEFUL TODAY'S HEARING WILL HELP US TO BETTER MATCH THE SURPLUS WITH THE NEED BY MOVING US TOWARD SOLUTIONS TO THOSE PROBLEMS.

HERE AT HOME, THE DIMENSIONS OF THE SURPLUS ARE NOTHING SHORT OF STAGGERING. THE U.S. COMMODITY CREDIT CORPORATION OWNS VAST STORES OF SURPLUS FOOD...FOOD THAT IS NOT ALREADY COMMITTED TO THE VARIOUS FEEDING PROGRAMS.

(AS OF JULY 1, 1984, THIS UNCOMMITTED INVENTORY INCLUDED 2.6 BILLION POUNDS OF DAIRY PRODUCTS, 306 MILLION BUSHELS OF GRAIN AND SOYBEANS, 20 MILLION HUNDREDWEIGHTS OF RICE AND 15 MILLION POUNDS OF HONEY.)

EVERY DAY, THE UNITED STATES MUST FOOT THE BILL TO PAY FOR THE STORAGE AND HANDLING FOR ALL U.S.-OWNED COMMODITIES. FOR FISCAL YEAR 1983, THAT BILL TOTALLED $484 MILLION.

THE FEDERAL GOVERNMENT HAS MADE SIGNIFICANT STRIDES IN USING OUR SURPLUS COMMODITIES HERE AT HOME. DURING FISCAL YEAR 1984, ALMOST 2 BILLION POUNDS OF THESE COMMODITIES WILL BE DONATED TO SCHOOLS, ELDERLY FEEDING PROGRAMS, HOSPITALS, AND OTHER CHARITABLE ORGANIZATIONS IN AN EFFORT TO IMPROVE THE DIETS OF A LARGE-CROSS SECTION OF OUR POPULATION. IN ADDITION, THE ADMINISTRATION AND CONGRESS HAVE RESPONDED TO THE NEEDS OF THE HUNGRY BY ESTABLISHING A COMMODITY DISTRIBUTION PROGRAM FOR INDIVIDUALS: THE TEMPORARY EMERGENCY FOOD ASSISTANCE PROGRAM. SINCE THE INCEPTION OF THIS

PROGRAM, OVER 1 BILLION POUNDS OF CHEESE, BUTTER, MILK, CORN MEAL, FLOUR, RICE, AND HONEY HAVE BEEN DISTRIBUTED TO STATE AGENCIES FOR CONSUMPTION IN NEEDY HOUSEHOLDS.

THE FEDERAL GOVERNMENT IS ALSO MAKING USE OF OUR AGRICULTURAL BOUNTY OVERSEAS. THE U.S. IS THE WORLD'S LARGEST FOOD DONOR, HAVING GIVEN MORE FOOD ASSISTANCE TO DEVELOPING NATIONS THAN ALL OTHER COUNTRIES COMBINED.

IN THE 30 YEARS THAT THE FOOD FOR PEACE PROGRAM HAS BEEN IN EXISTENCE, ABOUT 30 MILLION TONS OF COMMODITIES HAVE BEEN SHIPPED TO 100 COUNTRIES THROUGH CONCESSIONAL SALES AND OUTRIGHT DONATIONS. FURTHER, THE DEPARTMENT OF AGRICULTURE HAS AUTHORITY TO DONATE DAIRY AND WHEAT TO CERTAIN FOOD AID PROGRAMS. IN ADDITION TO HELPING THE HUNGRY, THE USE OF THESE SURPLUSES SERVES BOTH AS A TOOL FOR DEVELOPMENT AND AN ASSURANCE OF FUTURE MARKETS FOR THE PRODUCTS OF OUR FARMS.

ALTHOUGH SURPLUS COMMODITIES WILL NOT SOLVE THE HUNGER PROBLEM, THEY CAN HELP TO ALLEVIATE IT. HOWEVER, THERE ARE SOME ISSUES THAT NEED TO BE ADDRESSED AS WE SEEK WAYS TO USE OUR NATURAL BOUNTY.

WE MUST REMEMBER THAT NOT ALL COMMODITIES ARE IN SURPLUS AND THE ONES THAT ARE DO NOT PROVIDE FOR ALL NUTRITIONAL NEEDS.

MOREOVER, BASIC QUESTIONS MUST BE ANSWERED. WHAT DOES IT TAKE TO PROCESS THE COMMODITIES INTO CONSUMABLE FORM? WHO WILL PAY FOR THIS PROCESSING? HOW MIGHT WE BEST TRANSPORT AND DISTRIBUTE THESE COMMODITIES IN THE MOST COST-EFFECTIVE MANNER? WHAT ROLE SHOULD THE PRIVATE SECTOR PLAY IN SURPLUS COMMODITIES DISTRIBUTION?

WE MAY NOT ALWAYS HAVE THE SURPLUSES WE HAVE TODAY. WHILE WE DO, WE MUST MAKE STRIDES TOWARD USING THEM AS EFFECTIVELY AS POSSIBLE TO LESSEN HUNGER AND MALNUTRITION.

USING THE CONCRETE INFORMATION GATHERED AT THIS HEARING, THIS COMMITTEE WILL PLAY A CONSTRUCTIVE ROLE TOWARD THAT END. MR. CHAIRMAN, I LOOK FORWARD TO HEARING TODAYS'S TESTIMONY, AND I THANK THE WITNESSES FOR GIVING US THEIR TIME.

PREPARED STATEMENT OF HON. TONY P. HALL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO AND CHAIRMAN, INTERNATIONAL TASK FORCE ON HUNGER

I AM PLEASED TO BE HERE TODAY AS THE SELECT COMMITTEE EXAMINES WAYS OF APPRIOPRIATELY DISTRIBUTING AND UTILIZING THE AGRICULTURAL ABUNDANCE OF THIS COUNTRY. AS CHAIRMAN OF THE COMMITTEE'S TASK FORCE ON INTERNATIONAL HUNGER, I AM ESPECIALLY INTERESTED IN THE USE OF COMMODITES IN THE LESS DEVELOPED COUNTRIES TO ALLEVIATE HUNGER WHILE AT THE SAME TIME INCREASING PRODUCTIVITY. I WANT TO STRESS THAT--TO INCREASE PRODUCTIVITY. WE NEED TO BE CAREFUL TO AVOID DISINCENTIVES TO LOCAL AGRICULTURAL PRODUCTION.

SENATOR MELCHER HAS BEEN A LEADER IN DEVISING WAYS TO UTILIZE U.S. COMMODITIES AGAINST HUNGER. I ALSO WANT TO RECOGNIZE HIS IMPORTANT ROLE IN INTRODUCING THE GLOBAL PRIMARY HEALTH CARE BILL IN THE SENATE. UNDER SECRETARY AMSTUTZ AND ASSISTANT ADMINISTRATOR BLOCH AND REPRESENTATIVES OF THE COMMODITY PRODUCERS ALSO HAVE MUCH TO CONTRIBUTE TO OUR DISCUSSION TODAY.

INNOVATIVE PROGRAMS SUCH AS THOSE DEVELOPED BY PROJECT SHARE, LAND O' LAKES INTERNATIONAL DEVELOPMENT AND THE COOPERATIVE LEAGUE OF THE U.S.A. WILL PROVIDE THE COMMITTEE WITH MODELS THAN MAY BE EXPANDED BOTH THROUGHOUT THE THIRD WORLD AND IN POVERTY-RIDDEN NEIGHBORHOODS IN THE UNITED STATES.

AN AREA OF PARTICULAR CONCERN TO ME IS INCREASING THE ROLE OF PRIVATE VOLUNTARY ORGANIZATIONS IN FOOD AND DEVELOPMENT AID. U.S. PRIVATE AID ORGANIZATIONS AND THEIR THIRD WORLD COUNTERPARTS ARE OFTEN BETTER ABLE TO REACH MALNOURISHED PEOPLE THAN LARGE GOVERNMENT AGENCIES. CURRENTLY MANY AGENCIES SEEM TO BE BROADENING THE BENEFITS OF FOOD AID BY COMBINING THEM WITH ECONOMIC SELF-HELP PROJECTS. THE POTENTIAL OF THIS ASPECT OF PRIVATE EFFORTS IS INDEED PROMISING.

AS WE CONSIDER DISTRIBUTING GREATER QUANTITIES OF THE MASSIVE U.S. FARM SURPLUS THROUGH PRIVATE ORGANIZATIONS, WE MUST KEEP IN MIND THE NEED FOR OTHER SERVICES SUCH AS PRIMARY HEALTH CARE, LITERACY TRAINING AND AGRICULTURAL CREDIT. THESE INPUTS WILL ARE NECESSARY TO AUGMENT THE BENEFITS OF FOOD AID. I LOOK FORWARD TO PARTICIPATING IN THIS HEARING.

PREPARED STATEMENT OF HON. LEON E. PANETTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

I AM PLEASED TO BE A PART OF TODAY'S HEARING ON EFFECTIVE USES OF AGRICULTURAL ABUNDANCE FOR HUNGER RELIEF. TODAY'S FORUM ALLOWS US TO STUDY FOREIGN AND DOMESTIC FOOD DISTRIBUTION PROGRAMS AND HOPEFULLY IDENTIFY WAYS TO IMPROVE THE OPERATION OF BOTH.

ONE OF THE MOST BAFFLING SITUATIONS FOR THE PUBLIC TO UNDERSTAND IS HOW THERE CAN BE HUNGER AND STARVATION IN THIS WORLD WHEN SUFFICIENT FOOD RESOURCES ARE AVAILABLE. ESPECIALLY WHEN LARGE QUANTITIES OF FOOD LIE IDLY IN WAREHOUSES, THE CONTRADICTION OF HUNGER AMIDST PLENTY IS EVEN MORE STARK. IF THIS COMMITTEE CAN MAKE EVEN SOME SMALL CONTRIBUTION TOWARD A MORE EFFECTIVE MATCHING OF FOOD SUPPLY WITH FOOD NEEDS, WE WILL HAVE MADE A MAJOR CONTRIBUTION.

AS WE HAVE LEARNED IN THE AGRICULTURE COMMITTEE, HOWEVER, THE OPERATION OF EFFICIENT AND EFFECTIVE COMMODITY DISTRIBUTION PROGRAMS IS NO EASY MATTER. PUT SIMPLY, IT COSTS MONEY TO DISTRIBUTE "FREE FOOD". PROCESSING, PACKAGING, TRANSPORTATION AND HANDLING COSTS CAN BE VERY LARGE. ADD TO THAT THE INEVITABLE COORDINATION AND SPOILAGE PROBLEMS, AND THE OBSTACLES TO OPERATING A SUCCESSFUL PROGRAM CAN BE FORMIDABLE.

LAST YEAR, REPRESENTATIVE BILL EMERSON AND I DESIGNED LEGISLATION (H.R. 1590) THAT BECAME A BASIS FOR THE TWO YEAR, DOMESTIC SURPLUS COMMODITY DISTRIBUTION PROGRAM ENACTED BY

CONGRESS IN P.L. 98-92. THAT PROGRAM REQUIRED THE SECRETARY OF AGRICULTURE TO DISTRIBUTE SURPLUS COMMODITIES THROUGHOUT THE COUNTRY TO FOOD BANKS, NUTRITION PROGRAMS, SOUP KITCHENS, AND OTHER OUTLETS SERVING NEEDY PERSONS. ONE OF THE BILL'S MOST IMPORTANT CONTRIBUTIONS WAS THE PROVISION OF $50 MILLION A YEAR FOR STATE AND LOCAL DISTRIBUTION COSTS. IT IS MY BELIEF THAT THE PROGRAM WOULD NOT HAVE BEEN NEARLY AS SUCCESSFUL WITHOUT THIS FUNDING.

WHILE I BELIEVE THIS PROGRAM HAS BEEN SUCCESSFUL, IT HAS BEEN A LIMITED SUCCESS. CONTRARY TO POPULAR BELIEF, THE FEDERAL GOVERNMENT DOES NOT OWN A VARIETY OF VAST QUANTITIES OF SURPLUS FOOD. OVER THE PAST 18 MONTHS, AMPLE SUPPLIES OF DAIRY PRODUCTS ONLY (PRIMARILY CHEESE, BUTTER, AND NONFAT DRY MILK), HAVE BEEN AVAILABLE. WHILE THESE COMMODITIES CAN BE A VALUABLE ADDITION TO THE DIETS OF THOSE IN NEED, THEY CANNOT ALONE END HUNGER NOR ASSURE THE POOR A BALANCED DIET THAT IS CONSISTENT WITH GOOD HEALTH.

IT IS THE LIMITED POTENTIAL OF SURPLUS COMMODITY DISTRIBUTION PROGRAMS TO ALLEVIATE DOMESTIC HUNGER, AS WELL AS THE MAJOR LOGISTICAL PROBLEMS WITH COMMODITY DISTRIBUTION PROGRAMS I CITED BEFORE, THAT HAVE LED ME TO CONCLUDE THAT COMMODITY DISTRIBUTION PROGRAMS SHOULD NOT BE THE PRIMARY APPROACH TO FIGHTING HUNGER IN THE UNITED STATES. IN FACT, I BELIEVE THE COMMODITY DISTRIBUTION PROGRAM SHOULD ONLY BE OPERATED WHEN SURPLUSES EXIST. OTHERWISE WE SHOULD WORK TO STRENGTHEN THE ARRAY OF EFFECTIVE FOOD ASSISTANCE PROGRAMS WE HAVE -- FOOD STAMPS, ELDERLY FEEDING, WIC, SCHOOL LUNCH AND OTHER CHILD NUTRITION

PROGRAMS. PUTTING RESOURCES INTO THESE PROGRAMS, THROUGH BILLS LIKE H.R. 5151, THE HUNGER RELIEF ACT OF 1984, IS THE MOST EFFICIENT AND EFFECTIVE RESPONSE WE CAN PROVIDE TO DOMESTIC HUNGER.

SINCE LARGE SURPLUSES OF CERTAIN COMMODITIES REMAIN, HOWEVER, IT IS IMPORTANT FOR CONGRESS TO EXERCISE OVERSIGHT OVER THE COMMODITY DISTRIBUTION PROGRAM. PARTICULARLY SINCE HEARINGS OF THIS COMMITTEE AND THE NUTRITION SUBCOMMITTEE OF THE AGRICULTURE COMMITTEE INDICATE THAT THE HUNGER PROBLEM IN THIS COUNTRY IS CONTINUING TO GROW, WE NEED TO ASSURE THAT AVAILABLE COMMODITIES REACH AS MANY OF THOSE IN NEED AS POSSIBLE.

AMONG THE QUESTIONS I WOULD POSE TO TODAY'S WITNESSES ARE: ARE THERE LOW INCOME GROUPS OR AREAS NOT BEING REACHED BY THE CURRENT DISTRIBUTION ACTIVITIES? WHAT ARE SOME ALTERNATIVE DELIVERY SYSTEMS THAT COULD IMPROVE OR EXTEND DELIVERY, ESPECIALLY TO THE RURAL AREAS? HAVE LOCAL STORAGE AND HANDLING COSTS INCREASED TO A LEVEL THAT MIGHT IMPEDE ACTIVE PARTICIPATION IN SURPLUS DISTRIBUTION? IS THE DEPARTMENT'S ALLOCATION FORMULA FOR SURPLUS COMMODITIES SUFFICIENTLY FLEXIBLE TO ALLOW COMMODITIES TO REACH STATES AND LOCALITIES WHERE DEMAND IS THE GREATEST?

I HOPE TODAY'S HEARING WILL PROVIDE ANSWERS TO THESE AND OTHER IMPORTANT QUESTIONS.

PREPARED STATEMENT OF JULIA CHANG BLOCH, ASSISTANT ADMINISTRATOR, BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman, Members of the Committee,

Thank you for giving me this opportunity to discuss with you today the role of food aid in addressing world hunger. We believe AID's record makes clear that we share the concerns of this Committee about the problems of world hunger. The PL 480 food aid program, taking advantage of U.S. agricultural abundance, offers a principal way the United States can demonstrate its concern with these problems and can take action to address their root causes.

The Food for Peace Program - as we all recognize - has always operated under multiple objectives. The PL 480 statute is explicit that the program is designed to serve foreign policy, market development, economic development and humanitarian objectives. Since the Program's inception 30 years ago, those objectives have worked together much more harmoniously than not. We in AID view PL 480 as unique in that it can promote both economic development and market development hand-in-hand. Moreover, as the Program has evolved over the years, it has become increasingly effective in serving these multiple objectives. As early as 1966, Congress deleted from Public Law 480 any references to U.S. surpluses in recognition that U.S. food abundance was a valuable resource for the multiple objectives of the law. Food for Peace now is used as an instrument of national and foreign policy in reducing high US grain stocks and in combatting problems of hunger and malnutrition abroad.

Over the years, the United States has provided 653 billion pounds of food to over 1.8 billion people. In FY 1984 alone, the U.S. will provide nearly 6.5 million tons of food to the world's poor, including about 1.4 million tons administered by U.S. voluntary agencies and the World Food Program. The U.S. is the largest food donor in the world, providing more than all other donors combined. Recent experience in Africa and elsewhere serves to emphasize that the U.S. will continue to respond to emergency food shortages. The President's recently transmitted food aid initiative will, if enacted, provide aid with additional authorities to respond to such emergencies in a more timely and effective fashion.

Equally as important as the statistics on tonnage supplied and numbers to be fed, is the need to improve the effectiveness of U.S. food aid programs. Thus, to make the best use of this resource, AID is placing increased emphasis on efforts to assure that our emergency and regular food aid programs are appropriately targeted, soundly designed and effectively administered - i.e. that food aid is provided to those countries and people that are truly in need, and that systems are adequate to give reasonable assurance that U.S. food aid will actually reach those people in need. In particular, AID continues to seek to strengthen the links of food aid to long-term economic growth, through policy reform, promotion of private sector initiative, integration of food and non-food assistance, and rigorous LDC self-help measures.

A number of PL 480 programs illustrate growing success in utilizing food aid. For example, Cape Verde, Upper Volta and Mauritania use food aid in combination with development assistance to encourage the elimination of inappropriate price policies and other root causes of chronic food emergencies. Similarily, in Zambia, food aid supports IMF conditions and contributes to policy reforms which improve production incentives to small farmers to increase food production, particularly corn. In Bangladesh, Title III food aid supports an open market sales program which stabilizes prices and, at the same time, maintains a buffer stock to assure food security for this emergency-prone country. And in Somalia local currency generated from the sale of Title I food is placed in a special account and used to finance a wide variety of agricultural priorities.

Moreover, food aid can be targeted with increasing effectiveness to the needy. For example, in Bangladesh the Food for Work Program has provided employment and salaries to hundreds of thousands of landless laborers while building over 35,000 miles of roads linking isolated rural areas to the market economy and government services. In Haiti, Sri Lanka, the Philippines, Morocco and Senegal, PL 480 food has been used in maternal-child health programs as an incentive to get mothers and children to come to clinics. These programs have

demonstrated that food aid can be effectively programmed - in concert with other inputs - to reduce malnutrition. The development and introduction of processed weaning foods and their availability under PL 480 were essential to the success of some of these maternal-child health programs in Costa Rica, Ecuador, Guyana, as well as Sri Lanka. And USAID/Kenya's Title II program has illustrated the benefits that can be achieved in building a health and development-related emphasis into a program previously focused essentially on commodity distribution.

PL 480 commodities also provide important balance of payments support for most recipient countries. PL 480 Title I credits have a positive short-run impact on the recipient country's balance of payments position. Moreover, the addition of PL 480 Title III, which provides for debt forgiveness in cases where recipient countries are willing to undertake additional developmental policy or project initiatives, provides opportunities for the balance of payments benefit to be greatly enhanced.

PL 480 offers additional opportunities to use Food for Peace commodities in innovative ways. In emergencies, sales of a portion of donated or USG-financed food enables us to move quickly in meeting transport and distribution costs. In selected non-emergency situations, sales of PL 480 commodities

offer a way to generate domestic resources needed to carry out integrated programs, e.g., in health, nutrition, education and agriculture, necessary to address the underlying causes of hunger and low productivity. For example, in the Jamaica Land O'Lakes Project, sales proceeds from PL 480 Title II butter and cheese processed in-country are used to capitalize a Jamaica Agricultural Development Foundation (JADF). The JADF has been established as a non-profit private sector venture capital institution to develop and promote sustainable agricultural and agribusiness projects in Jamaica. And in India, through the CLUSA/Oilseeds Project, over 1,000 cooperatives for oilseed production have been created using currencies generated through the sale of Food for Peace commodities. These local cooperatives cover more than 2,000 villages, benefitting 74,000 farmers.

Section 206 of Title II offers further opportunities for innovative programming of PL 480, through sale of donated commodities in government -to-government programs, to support development programs necessary to address the root causes of hunger in countries plagued by chronic food emergencies.

Additionally, Section 416 provides authority to donate dairy products and wheat to poor people overseas. Shipments in 1984 have thus far exceeded $150 million in value. The inclusion of

authority in Section 416 for a two-year experimental program using ultra-high temperature milk is still another example of innovative approaches toward the matching of U.S. commodity availabilities with the nutritional needs of poor people in Third World countries.

In sum, our experience to date indicates that we have only begun to capitalize on the full potential of Food for Peace as an instrument for developmental impact as well as humanitarian relief. AID is committed to continuing its pursuit of increasingly effective ways to make use of the abundance of the American farmer in serving U.S. objectives in the developing world.

Food aid and the development it fosters leads to a higher level of world trade in agricultural products. The resources and opportunities food aid provides increase the recipients' productivity and income. Increased income in developing countries in turn, has consistently led to an increased but more diversified demand for agricultural products. Thus, food aid can and does make a key contribution to a chain of events that leads to a higher level of output and trade, and ultimately a higher level of U.S. commercial exports. Of the top ten country markets for U.S. agricultural exports in 1983, eight countries had at some time received PL 480 assistance; six had been major recipients.

At the same time, the picture would not be complete without recognition of the very real challenges - if not obstacles - that must be addressed if food aid is to be effectively programmed. Key issues of programming and implementation must be squarely faced if food aid is to be utilized as a positive resource in meeting both immediate and longer-term needs. Just as we can point to examples of success in the innovative use of food aid, so can we identify the dangers that will result - and have resulted - when distribution systems are inadequate for the volume of food supplied; when developing country policy frameworks are inappropriate to the effective use of food aid; when commodity mixes are poorly tailored to developing country dietary customs or needs; and when food supplies are provided without due regard for possible disincentive effects on local agricultural production.

A program of the dimension of Food for Peace must be carefully managed, thoroughly planned and with ever step alertly monitored. Such management begins with a thorough, systematic, and continuing effort to understand the economies and circumstances of the recipient countries. Such understanding is especially needed to avoid two dangers: the wrong commodity or delivery at the wrong time. The commodities American abundance makes available may not always be the ones best

suited for the recipient. We have for example, found that shipments of American long grain rice to Senegal and Mauritius led to large immovable stocks. The countries preferred shorter, broken rice and coarse grains, both of which were available from other countries at much lower cost than our aid.

Timing also can be a serious problem. American abundance in Africa must arrive to be available at the "time of hunger." Later arrival, after harvest can make it irrelevant or even harmful.

Food aid is not a substitute for the hard steps the developing countries must take themselves to strengthen their economies, to remove obstacles to greater food production and to improve opportunities for the poor. Very specifically, food aid must not conflict with the priority need for developing countries themselves to (1) do away with policies that create disincentives for farmers and discriminate against rural development and employment; (2) do a better job of producing, storing and distributing their own food; and (3) increase the access of the poor to expanded food supplies. Food aid should not simply be viewed - as it sometimes has - as a bail-out for balance-of-payment problems, or a conciliation to urban populations or a low-cost, relatively easy-to-secure foreign aid resource.

AID is committed to a number of steps to reduce these dangers. Among them are rigorous implementation of the provisions of the Bellmon Amendment designed to avoid production disincentives and to assure the existence of adequate storage and distribution systems when food aid is programmed; strengthened self-help measures and local currency programming as an integral part of PL 480 negotiations; improved targeting of food aid commodities; and better coordination among donors of both humanitarian and developmental food supplies.

To sum up, each year we are using more American abundance in new, more innovative ways to increase the productivity of developing country farmers and to end hunger. Recent legislative action has proven very helpful. We intend to build upon and improve our record to date. In carrying out this effort, it must also be remembered that the effective use of PL 480 and other food aid requires systematic and continuing analysis of the recipient nation's economy and of the food sector as part of the larger economy. It requires careful planning. And it is not without pitfalls.

We believe the U.S. can meet the challenge of effective food aid to help alleviate hunger and to help people in the Third World to help themselves so that in the long run they will contribute to a stronger world economy and a larger demand for U.S. agricultural products.. AID will continue its strong support for a program that strikes the right balance between the humanitarian, export and developmental purposes of food aid fully consistent with our national interest.

Prepared Statement of Patrick B. Healy, Chief Executive Officer, National Milk Producers Federation

Mr. Chairman and Members of the Committee, I am Patrick B. Healy, Chief Executive Officer of the National Milk Producers Federation. We represent the American dairy farmer, marketing his product through cooperatives in this nation. We welcome the opportunity to testify before the Select Committee on Hunger to address domestic and worldwide hunger and malnutrition.

It is unconscionable to think that the world's peoples suffer a significant level of hunger. More so is the shame and tragedy that any within our own borders should face food shortages. American agriculture is an industry of abundance. Our government at this very minute holds tons of nutritious dairy products in storage. It seems that their interest is not attuned to moving these food stocks out of warehouses and into the hands of the hungry.

Allow me to begin by lauding the presence of Senator John Melcher, a distinguished leader in the field of agricultural legislation and a champion of the commodity distribution program in both the domestic and international purview. We have been pleased to support the Senator's assertive leadership in providing landmark legislation over the past few years to bust open the legal doors of government warehouses to make our national abundance available to the poor at home and abroad. His vision is clear far into the future as he projects the value of commodity distribution not only in its ability to feed the poor today, but in paving the way for new markets for American agriculture.

The domestic commodity distribution program initially began in 1935 with the establishment of Section 32 funding and then expanded with the passage of the Agricultural Act of 1949 which authorized the Commodity Credit Corporation to donate commodities acquired under price support programs to schools and institutions. The purpose of commodity distribution was two-fold: to provide food assistance to the vulnerable of our population--the young and the disadvantaged, and to provided a balancing mechanism for agricultural price support mechanisms--an outlet for agricultural surpluses acquired by the government.

The domestic donation program has had a stormy career, at times suffering through periods of administration apparently designed to make the program so unworkable that efforts to end its benefits would be easily attained. The National Milk Producers Federation has worked over the years to press for improvement of the domestic commodity distribution program. Though problems do exist, as they do in any business, we must applaud the efforts of this administration to improve the delivery system to schools and other institutions. New channels, such as the national commodity processing program, have helped to bring schools government-donated commodities while at the same time easing the transportation routes by making the processor the first recipient.

School meal providers and their national association, the American School Food Service Association, have worked hard to assist in improving the commodity donation program. These institutions realize the value of government-donated commodities to helping them to provide low-cost meals to school children and ASFSA has urged the improvement of the system rather than a phase-out of the program even in those years of exasperation of poor management.

A member of my staff sits on the advisory board of the current multi-million dollar study to review the commodity donation program to schools and to assess its success in comparison with a proposed voucher program and even a cash-out of the program. We eagerly await the final evaluation of the study, despite our displeasure with certain aspects of the study's design.

The Federation supported and actively worked for the provisions spear-headed by Senator Melcher in the Senate and Congressmen Jim Jeffords and Donald Pease in the House to release dairy products to needy Americans. The expansion of the Food Stamp Program, an essential program to assure the basic nutritional well-being of the American public, had brought a halt to direct commodity donation to most Americans. The recent surge in dairy production, however, brought us face to face with a surplus situation which no longer

warranted a ban on direct commodity distribution to Food Stamp recipients. The monthly food stamp allowance is barely manageable for the best of budgeters, it did not make sense to prevent the release of butter, cheese, and nonfat dry milk to hungry Americans. High levels of government stocks combined with a heart-rending recession which left many working-class Americans jobless and financially distressed. The distribution program has been an important source of food and continues as a valuable supplement to the Food Stamp Program. Food banks sprung up across the nation addressing the needs of the jobless and providing the important conduit for government-held commodities.

Headlines of food lines brought the realization that we lacked proper federal governance of the commodity distribution program. Erratic donation patterns and the absence of federal guidelines resulted in unsatisfactory program administration. Some hungry Americans were receiving no surplus cheese, others had multiple five-pound blocks delivered right to the door. The undisciplined program resulted in many cheese manufacturers and distributors loudly complaining about the cheese donation program. Finally, USDA responded with federal guidelines which have eased the roller-coaster distribution practices and states have monthly allotments for which they can plant months in advance. Individual recipients are now more closely identified for eligibility and the voluntary organizations which provide the local distribution are established and experienced. States which choose to accept additional dairy products for distribution may do so by arranging for the products to be packaged for consumer use. Of course, the $50 million appropriated by Congress initially through the JOBS Bill and now continued on an annual basis has greatly helped to move commodities to the hands of the needy.

We currently support the development of the concept of a Surplus Commodity Supplemental Food Stamp to operate as a part of the Food Stamp Program in times of agricultural surplus. While the idea of a supplemental food coupon to food stamp recipients is in no way intended to replace the commodity distribution

program, a supplemental commodity coupon could work to effectively move surpluses into the hands of the needy while bypassing the government purchase process. We are studying the possibilities of the program and expect to work for the legislative provision as a part of the 1985 Farm Bill legislative process.

We cannot give as positive a picture for the international distribution of surplus commodities. Yes, the PL 480 Program has been an important and essential program to move America's agricultural wealth overseas. There is impressive documentation of market development since PL 480's enactment in 1954, but the donations which have moved through PL 480, especially in regard to dairy products, are precious little in comparison with our national abundance. It was in the response to the financial structures of the PL 480 program that Senator Melcher developed his concept to expand Sec. 416 authority to release government food surpluses without the need to increase federal appropriations. After all, the federal government had already paid for the foodstuffs through the price support programs. Farmers across America have already faced the public regarding the national costs involved in purchasing our abundance. There was no need to draw out the process to give the impression that the public would pay twice for agricultural productivity.

Expanded 416 authority is designed to release government-held commodities, already cost-accounted for, to needy persons overseas. The provisions allow for the barter and sale of the commodities under the governance of international food aid organizations such as CARE and the recipient governments. The provision is a landmark in making permanent legislative provisions to allow for multi-year food donation contracts. The legislation unleashes many of the restrictions which had hampered food donation in the past--separate appropriations were no longer necessary, CCC was authorized to expend funds for packaging, processing, and transportation to ports of entry. But relatively little product has moved.

America has the abundance to feed ourselves, to provide for international markets,and to provide relief for the world's poor. Our current surpluses, especially in the dairy sector, hang over our own domestic market and create a public pricetag for storage. The legislative mechanisms exists on the books to move this product into the hands of the needy overseas. The voluntary organizations are in operation with an unquestioned history of success standing ready to move the products and distribute them within lesser developed nations. All we need now is the will to do it.

One Case Study

Senator Melcher's provisions this year was an expansion of a provision he originally ushered through Congress in 1982. At that time, my staff was contacted by a woman representing a church group which had established a school in Haiti. The school has flourished for a number of years funded by concerned Americans, but malnutrition barred the way to true success. Pictures told the story of how little children were trapped into economic subservience for the want of a cup of milk each day. Some children were smiling and healthy. Their school progress was a pride. They lived on the edge of the local village where a milk program was available. Other children were drawn and listless. The ends of their coal-black hair turned an undeniable orange. Their school progress was nil. They had no access to milk.

We helped Ms. Janice Gleason of Florida to begin to sort out the avenues within AID to apply for Section 416 donations. Ms. Gleason was personally involved with the Haitian school, could certify that the transportation costs would be borne by her American church group, and that the Haitian school could handle the product without fraud, waste or abuse. It seemed the perfect case study for the newly expanded 416 provisions.

Just a few weeks ago, Ms. Gleason has been informed that the milk is

expect to be released. Two years after the initial contacts. Two years of frustration of working with government in action.

At first the hitch in getting 416 nonfat dry milk released seemed to be that the administrative mechanism had been transferred from USDA to AID. Patience was needed to iron out some details. But month after month passed and no regulations were forthcoming. Ms. Gleason was told time and again that she could not apply for 416 milk because there were no official papers on which to write her application for the school to become an official private volunteer organization. She was told that she could not request release the milk until the regulations were official.

It was because Ms. Gleason doggedly followed every avenue she could conceive that milk is expected to be shipped in the near future. Because she personally pursued using another already established PVO receiving PL 480 donations, the promise of milk for her children appears to be forthcoming. If Ms. Gleason was still waiting for her official application, she would still be waiting.

National Milk Producers Federation
1840 Wilson Blvd., Arlington, VA 22201
703-243-6111

Patrick B. Healy
Chief Executive Officer

September 26, 1984

Honorable Micky Leland, Chairman
Select Committee on Hunger
U.S. House of Representatives
Room H2-507 House Office Building
Annex 2
Washington, D.C. 20515

Dear Mr. Chairman:

With regard to my testimony before the Select Committee on Hunger, September 20, 1984, addressing international and domestic commodity programs, I would like to submit further information which was requested by Mr. Gilman during questioning.

The inquiry concerned the storage costs of dairy products under the Dairy Price Support Program and the costs involved with distribution of the commodities under domestic and international commodity programs. This information is provided below. The source of all data is the Agricultural Stabilization and Conservation Service.

The storage costs per pound of product per year, including in and out of storage costs are:

butter	3.9 cents
cheese	3.5 cents
nonfat dry milk	1.4 cents

When product is dispensed for domestic distribution, two costs are involved, processing and transportation. Butter is purchased in bulk and must be processed into consumer usable sizes. Cheese and nonfat dry milk are purchased in a form inappropriate for direct consumption. Cheese is reprocessed and nonfat dry milk is instantized. The processing costs for these products are per pound of product:

butter	5.0 cents
cheese	12.5 cents
nonfat dry milk	14.0 cents

Norman H. Barker, President James P. Comerio, Jr., First Vice President Herbert Selbrede, Second Vice President

Transportation for domestic distribution is quoted at a national average. Product generally travels by rail, though there is sometimes trucking involved to the local site. Product is moved from the closest storage location. Average costs of transportation per pound of product are:

butter	3.5 cents
cheese	3.0 cents
nonfat dry milk	2.0 cents

The CCC's costs of moving dairy products to international points vary all over the lot, depending on the ocean carrier and the method of determining the rate. Of course, the U.S. doesn't always pay the entire freight, which may be shared with the recipient country or paid for from other program funds or by private institutions. Most shipments require rail transport to the port city, then ocean freight to the export destination. These are sometimes negotiated into a combined rate, usually less expensive than moving product from point to point at published freight rates. Large quantities, or cargo shipped with sufficient other freight can be transported quite cheaply to foreign ports by taking advantage of quantity discounts. Other factors determining rates is whether the ocean carrier is American or foreign. ASCS quoted a range of prices per hundredweight for moving nonfat dry milk to Africa from $3.06 to $7.05.

The total ocean transportation obligation of CCC from October 1983 through July, 1984 for dairy products exported are:

3.3 million pounds of butter	$2.7 million
3.6 million pounds of cheese	$ .2 million
78.2 million pounds of nonfat dry milk	$4.1 million

I would be pleased to provide more information as needed.

Sincerely,

Patrick B. Healy, Chief Executive Officer
NATIONAL MILK PRODUCERS FEDERATION

cc: Honorable Benjamin Gilman

PREPARED STATEMENT OF NELSON DENLINGER, EXECUTIVE VICE PRESIDENT, U.S. WHEAT ASSOCIATES, INC.

Mr. Chairman and members of the Committee, my name is Nelson Denlinger, and I am Executive Vice President of U.S. Wheat Associates. It is a pleasure to be here to testify today on the issue of hunger and the role of U.S. Wheat Associates in addressing that problem.

U.S. Wheat Associates is the market development arm of the U.S. wheat producer. Through our central office in Washington, D.C., another domestic office in Portland, Oregon, and thirteen overseas offices, we represent the U.S. wheat producer in promoting his overseas markets.

The Board of Directors of U.S. Wheat Associates is composed of producers from our fourteen member states. These states and their state organizations also play a major role in carrying out our market development activities.

The primary objective of U.S. Wheat is to increase wheat consumption around the world and to assure that the United States

gains a significant share of these expanded markets. We find that many countries are increasing their consumption of wheat because it is nutritious, their people want greater variety in their food intake, and wheat is economical--about half the price of rice, for example, on the world market.

U.S. Wheat strives to achieve its objective through several avenues. We provide technical information to end users such as millers and bakers; and we provide market information and training to overseas buyers, both government and private. This year we will bring over twenty-five trade teams to this country to show their representatives all aspects of the U.S. wheat industry.

Through these efforts, we have developed new markets and expanded old ones. However, the competition among exporters has been intense, and we have seen our market share decline. During the coming year we expect some improvement in the volume of U.S. wheat exports after two consecutive years of decline.

Our producers face serious economic problems, and many of them will have difficulty staying in business unless prices improve. Prices received by producers have declined by an estimated 15 percent since 1980/81, but at the same time the value of the dollar has skyrocketed--at least by 30 percent in the last two years. This means that while the price of wheat was going down for the U.S. producer, it was going up for the overseas buyer. The lower price for the importer that you would normally expect under this situation

did not happen. The signal that the overseas buyer received because of the strong dollar was to purchase less not more.

In the export market, key buyers have faced world recession and a heavy debt load in addition to the high-value dollar. Under these circumstances and sometimes with IMF direction, these countries have tried to limit their imports--including wheat--to conserve foreign exchange.

The level of U.S. wheat production has remained strong in spite of these problems and with acreage reduction programs in place. This year, it is expected that U.S. wheat production will be about 2.5 billion bushels which will be about two and one-half times our domestic useage. It is expected that U.S. wheat end-of-the-year stocks in May 31, 1985, will be down only slightly from last year's level.

However, the message that our wheat farmers would wish to bring to this group is that there is ample wheat to feed the hungry, and the United States could expand its production further if the demand were present. The shortcoming in the wheat market today is not one of production but economics and financing.

In recent years, our organization has had to give more attention to export credits as buyers have faced hard economic choices. The PL 480 program--which has been running at about $1.5 billion for all titles--has been useful to the poorer developing countries, but it is too small to meet but a fraction of the need.

This year, the demands placed on the program will increase, especially with the serious drought in East Africa.

Rather than program commodities early in this situation, U.S. government agencies have engaged in a tug of war over "self help" requirements or what steps they would like the recipient countries to take in order to receive the U.S. food aid. Such delays will exacerbate the hunger situation and also create ill will for the future.

The PL 480 program also suffers from the continuation of the cargo preference requirement which stipulates that half of the volume shipped under the program be carried on U.S. vessels. This requirement currently costs the program over $100 million annually without expanding wheat markets or maintaining a strong maritime fleet.

The bulk of today's U.S. agricultural export credit needs are met under the GSM-102 program. This is a government risk guarantee of private commercial loans. For the coming year, $5 billion will be available for all commodities under GSM-102 with a maximum of three years to repay the loan. For some countries, this program is adequate, but for many others an intermediate credit program would better meet their needs. We do have a very modest blended credit program, but these loans have been limited to competing with subsidized European Economic Community exports.

Our organization has also become increasingly concerned over trade policy issues in the last few years. Years of work in market development can be undone overnight by the stroke of a pen. It has become painfully evident that protectionist steps taken by the government to protect one sector of the economy will often spill over and affect agricultural exports. An example is last year's action by the U.S. Government on textiles which had a serious impact on U.S. wheat sales to China. With the recently implemented regulations of September 7 to further restrict textile imports by the United States, that issue is still very much a problem.

The pending issue of steel imports into the United States also poses a serious problem for agricultural exports, and the list goes on. Many of the countries that buy U.S. agricultural commodities need to export to this country to service their debts and earn foreign exchange.

This country is learning the hard way that trade is a two-way street. The agricultural community needs to become more alert and better prepared to defend its export markets. Our policymakers also need to better understand the importance of U.S. agricultural exports, and policies are needed that encourage rather than discourage their expansion.

Our wheat farmers will continue to need the export market to sell at least 60 percent of the wheat they produce. A larger U.S. share of a growing world wheat export market will enhance their

chances of making a profit and continuing to produce. That is the best way we know of to deal with hunger.

I have with me a pamphlet that provides additional information on U.S. Wheat Associates. Thank you for the opportunity of testifying.

Note.--Pamphlet referred to retained in committee files.

PREPARED STATEMENT OF ROBERT D. FONDAHN, PRESIDENT, FONDAHN & ASSOCIATES, INC.

My name is Robert Fondahn and I am President of Fondahn & Associates, Inc., a Washington-area firm that provides representational services to the nation's wheat, corn and soybean industry. In this capacity, I serve as President of Protein Grain Products International, President of the American Corn Millers Federation, and Vice President for Operations of the International Foundation for Agricultural Development, a subsidiary of the American Soybean Association.

My testimony is directed primarily at the P.L. 480, Title II food donation program and will focus on the reasons why exports of processed food products under Title II are important to the nutritional well-being of overseas recipients, to the developmental aspects of our foreign aid program, and to the over-all economy of the United States. The arguments I make on behalf of processed grain products also apply to other processed foods manufactured in the U.S. and exported under Title II. I will conclude my testimony with several suggestions for making the program even more effective than it has been in the past.

Let me begin by saying that the United States has a long and proud record of leadership in initiating and supporting trade expansion activities and humanitarian assistance programs made possible under the provisions of P.L. 480. As you know, the U.S.

recently celebrated the 30th anniversary of the P.L. 480 program. It has always enjoyed wide bipartisan support by the Congress and the American people. In addition, a long-term partnership has developed between the various government agencies, the voluntary organizations that carry out people-to-people food donation programs, and the private sector that supplies the commodities and support services necessary for effective program operation.

The present legislative authority of P.L. 480 expires on December 31, 1985, and Congress will soon begin deliberations on extending or amending the act. Given the world agricultural supply and demand situation at the present time, I am hopeful that Congress will give P.L. 480 the strong endorsement it needs to remain an effective and continuing export outlet for American agriculture and a means through which our farm commodities can be made available to the hungry and malnourished of the world.

Over the years the P.L. 480 program has grown into an innovative way of doing export business. This has benefited all concerned -- not only the American farmers who produce the commodities, the businessmen engaged in processing, packaging and transportation, and the foreign families who ultimately consume them, but also the national economies of the United States and of the countries which P.L. 480 has been helping.

When the P.L. 480 Act was passed in 1954, the major objective of the program was to relieve world hunger through the use of surplus

commodities such as wheat, feed grains, and rice. However, in 1966, the law was amended to place greater emphasis on nutrition. Authority was provided in Title II for enrichment and fortification of commodities to improve their nutritional values. What emerged in subsequent years was a range of processed, fortified and blended products many of which carry an amino acid profile and utilizable protein content comparable to that of meat and milk and yet are priced at only a fraction of what the animal protein would cost in most developing countries. Field programmers throughout the world now fully recognize and appreciate the nutritional contribution that products such as corn-soy-milk, wheat-soy-milk, bulgur, soy fortified bulgur, corn meal, soy fortified corn meal, and soy fortified sorghum grits make to the over-all dietary improvement of recipients. These products, which were developed by U.N. and USDA nutritionists, are used alone or in combination with other locally produced or imported foods such as vegetable oil and milk in both regular and emergency feeding programs.

The introduction of processed, blended and fortified grain products brought a new dimension to Title II supplementary feeding programs. The concept was based on the fact that if the prevention of malnutrition is to become a prerequisite to population stability and national development, then supplementary feeding should be expanded to cover a broader base. It should encompass the subclinical malnourished infant and young child. It should encompass the

pregnant and lactating mother because her nutritional status directly affects the health of the unborn, newborn, and young child. For these "at risk" groups, food supplementation functions in a "preventive" rather han a "curative" capacity. It provides a form of "immunization" against mental retardation, inadequate growth, and infant mortality. Expanded into this broader long term role, food supplementation becomes a primary instrument in national health and development.

Although the Title II program has grown significantly over the past 30 years (Table I), there have been four distinct trends in commodity levels. From inception in 1954 through 1961 we witnessed a sharp increase in both funding and exports. From 1961 until 1973 the program remained on a fairly high plateau with only minor variations in commodity levels. This was a period when U.S. supplies were in excess of domestic and commercial export needs. A sharp downturn in commodity levels occured in 1974 when world grain supplies became extremely tight and the U.S. opted to sell grain for dollars. The irony, of course, was that the U.S. food donation program was nearly halved at a time when world hunger needs were the greatest. As U.S. and world food production improved in the late 1970's, Title II commodity levels were gradually restored. Since 1980 the tonnage exported under Title II has remained fairly constant. This is due in large part to the foresight of Congress in mandating a minimum annual level of 1.7 million tons. Unfortunately, however,

the minimum tonnage level has not kept pace with world food needs.

Title II exports by commodity for the past three years are shown on Table II. The figures dramatically point out two major shifts in commodity programming: (1) a move away from soy fortified grain products and (2) increased programming of whole grains. This shift to lower-priced commodities was deemed necessary to maximize tonnage levels under rigid budgetary conditions. If Table II were extended to reveal shipments prior to FY82, we would also find that exports of processed commodities have been steadily falling due to budgetary pressures. Even in FY82, for example, total exports of processed foods represented 67 percent of the Title II program. In FY83 it had dropped to 51% and, with the likelihood that most of the Africa emergency will be whole grains, the FY84 precentage could still be lower. I think it is a sad commentary indeed that program guidelines have been altered in recent years to disuade the use of many highly nutritious products because the U.S. cannot afford the extra few cents a pound for enrichment and fortification.

What this means to the grain processing and allied industry is, of course, quite obvious. What could and should be done about it is the subject of my concluding remarks.

First, I feel it is imperative that Congress and the Administration recognize the importance of processed, value-added commodities not only to the food recipients overseas but also to the economy of

the United States. For every dollars worth of farm products exported in processed form, a tremendous ripple effect takes place, increasing employment, personal income, our balance of trade, and the Gross National product -- major determinants of national productivity. A USDA study of the effects of increased processed grain exports has estimated that if 10 percent of current exports of wheat, corn and soybeans were shipped as processed products rather than as raw commodities, the GNP would increase by nearly $16 billion, personal income would rise by over $3 billion, and over 300,000 new jobs would be created -- all within our own borders.

Second, the food shortage that exists in Africa today and the continuing need for food assistance in other parts of the world make it imperative that the U.S. increase its Title II food aid commitment in FY1985 and beyond. The current minimum tonnage level of 1.7 million tons should be increased in increments of 300,000 tons annually through FY1989. In addition, seventy-five percent of the annual increase should be applied to the sub-minimum for non-emergency programs with multi-year commitments. Annual appropriations for Title II commodities and ocean freight should also be increased to accommodate the higher tonnage levels. In so doing, the U.S. will be more responsive to the world's food needs not only in times of emergency but for the longer term as well. Raising the level of U.S. commitment will also directly benefit American agriculture and the U.S. economy.

Third, we must not overlook the fact that Title II has been an excellent market development tool for building lasting markets for American agricultural commodities. Many countries that were recipients of Title II foods are now major cash customers of U.S. agricultural products. I feel very strongly that we should view Title II in the broader context and we should not shy away from tying market development to economic development, particularly in those countries which have shown considerable economic improvement and are in the process of making the transition from Title II to commercial imports.

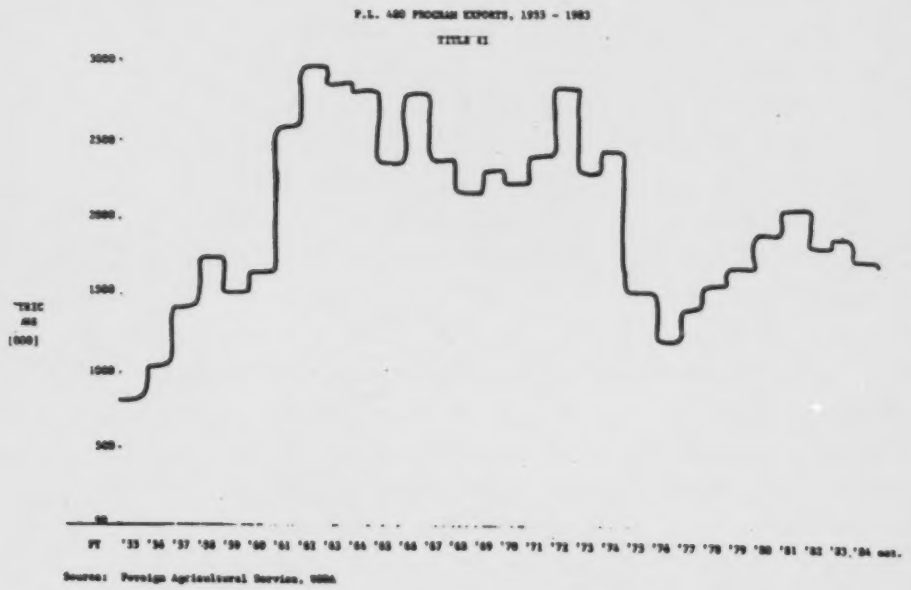
Fourth, more effective use should be made of Title III, especially in the areas of health and nutrition programs. Processed and blended foods should be utilized to the extent possible and provisions should be made to involve the use of U.S. private voluntary agencies and cooperatives in carrying out specified development projects.

In conclusion, I wish to remind the Committee that Title II, as amended in 1966, called upon the U.S. Government to maximize the use of highly nutritious, high value processed products in the food donation program. The foresight of Congress then has augered well for the world's impoverished and malnourished the past eighteen years. This fact, coupled with the more recent knowledge that processing at home is in the economic interests of the United States, clearly indicates the course of action that must be taken with

commodity programming in the years ahead.

I thank you for giving me this opportunity to express my views and I commend the Committee for calling this important hearing. I will be happy to answer any questions you might have.

TABLE I



Source: Foreign Agricultural Service, USDA

TABLE II

TITLE II

'000 metric tons

	FY 82 Shipments	FY 83 Shipments	FY 84 Program Approvals
Bulgur	208.9	151.8	183.4
Soy Fortified Bulgur	39.2	83.8	49.5
Wheat Soy Milk	26.7	7.3	11.6
Soy Fortified Sorghum Grits	21.8	22.7	52.2
Corn Meal	24.7	61.8	98.6
Soy Fortified Corn Meal	37.8	27.2	3.6
Corn Soy Milk	97.9	78.2	142.3
Instant Corn Soy Milk	20.7	49.5	13.6
Wheat	154.0	140.8	179.9
Soy Fortified Bread Wheat Flour - 12%	9.8	6.6	5.5
Soy Fortified Rolled Oats	10.8	6.7	3.2
Soy Flour	.6	.7	.7
Nonfat Dry Milk	74.3	136.1	157.9
Vegetable Oil	88.0	81.8	130.3
Miscellaneous dairy products	.7	22.4	4.0
SUBTOTAL	815.9	877.4	1,036.3
% of Total	(67.3)	(51.0)	(49.3)
Wheat	220.4	615.3	492.2
Corn	63.3	86.9	255.5
Sorghum	43.0	38.2	166.7
Rice	65.9	97.1	139.1
Dry Peas/Lentils	3.6	4.7	10.6
SUBTOTAL	396.2	842.2	1,064.1
% of Total	(32.7)	(49.0)	(50.7)
TOTAL	1,212.1	1,719.6	2,100.4

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USDA'S COMMODITY INVENTORY

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ABSTRACT

The Reagan Administration in 1983 was criticized for allegedly failing to release more Government-held surplus commodities in order to feed hungry people in the United States. In addition, policymakers have discussed the viability of using more of these items to relieve hunger overseas. This report describes how the Federal Government acquires and disposes of surplus commodities and examines what items are currently held in CCC's inventory.

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USDA'S COMMODITY INVENTORY

The Reagan Administration has been criticized recently for holding large quantities of surplus foods obtained under agricultural price support programs. Critics believe that the Administration should have been releasing greater amounts in order to feed hungry people in the United States.

During 1983, Congress introduced several bills aimed at encouraging the U.S. Department of Agriculture (USDA) to free up for domestic feeding purposes more commodities held by the Commodity Credit Corporation (CCC). Such language and some funds to cover state and local distribution costs during FY83 were included in the Emergency Jobs Appropriations Act (P.L. 98-8), which passed in spring 1983. This authority was revised and extended through FY85 under an unemployment compensation bill passed on August 4, 1983, and signed by the President on September 2 (P.L. 98-92).

In addition, a number of policymakers have been discussing the viability of shipping more CCC commodities to other countries to meet hunger needs. Section 416 of the Agricultural Act of 1949 was amended in 1982 and 1984 to encourage the overseas donation of surplus dairy products and wheat now held by the CCC.

Most of the uncommitted commodities in the Government inventory are surplus cheese, butter, and nonfat dry milk. Nevertheless, many lawmakers remain interested in the exact quantities of these and other types of foods in Federal Government warehouses, how and where they are stored, and how much is available for domestic or overseas distribution.

USDA's agricultural commodity procurement and distribution programs are a complex and sometimes confusing system. The Department acquires surplus agricultural commodities at one end under the authority of several different laws in order to support farm prices and income. It attempts to dispose of them at the other end by assisting domestic charitable institutions and needy families, providing relief to the poor in other countries, and fostering commercial sales both at home and overseas. Officials must guard against disrupting normal commercial markets throughout this process, which requires coordination among USDA's Commodity Credit Corporation (CCC), its operating arm the Agricultural Stabilization and Conservation Service (ASCS), the Agricultural Marketing Service (AMS), the Food and Nutrition Service (FNS), the Foreign Agricultural Service (FAS), and other Departmental branches.

How Commodities Are Acquired

Two principal authorities govern commodity acquisition:

o Section 32 of P.L. 320, the Act of August 24, 1935, is the authority under which the Department buys surplus "nonbasic" perishable commodities, generally meats, poultry, fruits and vegetables. The Secretary of Agriculture has the authority to determine which of these items should be purchased by

the Department, and at what prices, in order to relieve market distress situations and for other reasons. As a rule, since these items are perishable by nature, they are handled quickly and not stockpiled in Government warehouses. Nearly all items are already destined for domestic feeding programs at time of purchase. AMS oversees this activity.

o The 1949 Agriculture Act, as amended, is the authority under which the Government acquires so-called "nonperishable" price support commodities such as dairy products, peanuts, oils, cotton and a variety of grains. Unlike Section 32 commodities, these items are designated by law for mandatory price support at prices preset by Congress rather than selected by the Secretary. As a result, these commodities, particularly dairy products, are what have tended to accumulate in Government inventories and to create disposal problems for USDA. Purchases of these items and costs associated with their storage are financed by the CCC and administered by the ASCS.

How Commodities Are Distributed

Some domestic programs--most notably school lunch and elderly nutrition--receive a legislatively mandated minimum level of commodity assistance. Most of this mandated support consists of the Section 32 perishable items. These and other domestic outlets are also eligible to accept "bonus" items over and above these minimum levels. Most of the CCC cheese, butter, and nonfat dry milk being donated to domestic feeding programs are considered "bonus" items and not charged to the feeding programs, for example.

In addition, because of a dual concern over the growing CCC inventories and the needs of hungry U.S. citizens, Congress eased a prohibition in

the food stamp law that formerly prohibited needy families (other than those on Indian reservations) from receiving USDA commodities for at-home use in counties with a food stamp program (virtually everywhere in the U.S.). As a result, large quantities of U.S.-owned dairy and other products have been distributed directly to needy families via local emergency food centers.

The following table indicates specific CCC-held commodities that were distributed to domestic institutions and needy families during FY83. These figures, reported by ASCS, include both mandated and bonus commodities. The special dairy distribution program is included in the total. Outlets include the military, prisons, needy families, schools and other institutions.

TABLE 1. CCC DOMESTIC FOOD DONATIONS
(FY83)

Item	Quantity	Value
Corn (bu)	95,791	$ 236,412
Corn Products (lb)	13,827,070	1,781,970
Oat Products (lb)	3,504,166	560,293
Wheat (bu)	4,973	11,590
Wheat Flour (lb)	74,643,034	8,971,794
Bulgur (lb)	224,762	29,047
Rolled Wheat (lb)	590,940	71,786
Macaroni (lb)	8,503,133	1,590,785
Rice (cwt)	200,630	3,764,554
Honey (lb)	13,654,658	9,104,958
Vegetable Oil Products (lb)	28,889,859	9,972,494
Peanuts and Products (lb)	8,973,360	6,537,449
Butter (lb)	259,219,608	397,664,532
Cheese (lb)	563,508,994	831,976,998
Mozzarella Cheese (lb)	30,788,383	42,224,121
Nonfat Dry Milk (lb)	70,398,858	77,277,790
TOTAL VALUE		$1,391,764,983

Source: USDA's Agricultural Stabilization and Conservation Service

Certain surplus foods also are made available for humanitarian uses in other countries. The Omnibus Reconciliation Act of 1982 included a provision allowing foreign donations of surplus dairy items. More recently, Congress included language in the Agricultural Programs Adjustment Act of 1984 that expands this authority to include surplus wheat. Both initiatives are intended to complement, but not replace, the foreign food assistance activities conducted under the P.L. 480 Food for Peace program.

As of June 5, 1984, a total of 353.422 million pounds of nonfat dry milk, 43.201 million pounds of butter oil, 77.053 million pounds of butter, and 25.554 million pounds of cheese had been distributed under this new authority. Recipient countries included Haiti, Mexico, the Dominican Republic, Chile, the Philippines, Mozambique, Peru, Poland, Bolivia, Indonesia, Tanzania, Colombia, Brazil, Pakistan, India, Mauritania, Panama, Guatemala, and Sri Lanka. Wheat donations had not yet begun as of June 5.

How CCC Commodities Are Stored

The Federal Government does not store surplus commodities in its own warehouses but rather contracts with private firms to do so. Last year, about 600 warehouses (dry, cooler and freezer) in 44 states were storing processed items, almost all of them dairy products, according to ASCS.

The largest storage facilities are in the Kansas City area, where most of the ASCS storage management team is located. The most extensive facility there--and anywhere in the United States--is Beatrice Foods' Inland Center,

which recently was holding approximately 3,000 carloads of dairy products in a 160-acre network of underground caves. Such underground storage, created by stone mining, is far more energy-efficient and cost-effective than above-ground warehouses, ASCS officials observe.

ASCS also contracts for the storage of unprocessed (bulk) CCC commodities, primarily grains, through a separate series of uniform storage agreements with private elevators. Earlier this year, about 4,500 grain elevators were under contract, ASCS reported.

Processed and unprocessed commodities under CCC control are tracked by a computerized inventory and accounting system managed by the Kansas City ASCS office. Thus, the Department theoretically knows at all times exactly what is being stored and where it is located, even though the inventory changes regularly.

Spoilage losses have been relatively minor, USDA has reported (and the General Accounting Office confirmed in a December 1983 study). ASCS officials attempt to minimize spoilage by regularly rotating inventories, reprocessing certain stocks if necessary into more "storable" forms, and so forth. In a September 1983 letter to the House Government Operations Committee, the Department noted:

> USDA recently analyzed dairy product losses for calendar year 1982. The analysis excluded losses not attributable to length of storage, such as fire, flood, etc. Losses amounted to 0.11% of total year ending inventory. When one major loss due to a warehouse's negligence and/or criminal activity was excluded the loss dropped to 0.09% ending inventory Total losses were 2.6 million pounds out of 2.288 billion pounds. the vast majority of the losses were sold at reduced prices. Others were rejected back

> to the producer or damages were collected due to warehouse negligence. This loss experience compares favorably to, or is lower than, national statistics for average retail trade losses.

The Department stated in its letter that bulk and processed cheese can be successfully held for one or two years, butter for three to four years, and dry milk for four to five years. Grains and rice rarely spoil if properly stored, and those that have deteriorated have been sold. Moreover, CCC dairy stocks have been declining in recent months.

What Is Available?

How much of the Government's surplus is available for feeding hungry people? The quantities change regularly. For example, the amounts at any given time of available bulk grains--particularly wheat, corn, and rice--have been difficult to estimate. CCC grain price support activities are a complex matter, where commodities are almost constantly in transit as farmers contract for new crop loans or settle their old accounts with CCC.

In addition, much of the grain often cited as surplus actually may be committed to specific purposes or programs. For example, large portions of the more than one to two billion bushels of wheat in storage last year actually were in farmer-owned reserves rather than CCC hands. Of the wheat that was owned by CCC, four million metric tons (147 million bushels) is set aside by law as a Food Security Wheat Reserve for emergency food aid overseas. Portions of the corn, sorghum, and barely stocks are committeed to a disaster reserve for U.S. livestock feeding.

Nevertheless, table 2 does provide a snapshot of the amounts of commodities that were stored by the CCC as of September 1, 1984. Uncommitted items are what theoretically are available for use by domestic or overseas outlets, assuming no processing, distribution, or handling problems, no danger of market disruption, and acceptability by recipient groups.

TABLE 2. CCC COMMODITY INVENTORY
(September 1, 1984)
(in million units)

Commodity	Committed	Uncommitted	Total
Barley (bu)	2.7[1]/	10.2	12.9
Oats (bu)	--	1.4	1.4
Rye (bu)	--	3.1	3.1
Sorghum (bu)	28.0[1]/	53.8	81.8
Soybeans (bu)	--	.7	.7
Corn (bu)	44.3[1]	157.2	201.5
Wheat (bu)	147.0[2]/	131.1	278.1
Rice (cwt)	--	16.8	16.8
Honey (lb)	49.3	--	49.3
Butter (lb)	131.2	123.2	254.4
Cheese (lb)	117.1	695.9	813.0
Nonfat Dry Milk (lb)	177.6	1,068.5	1,246.1

1/ Committed to disaster reserve for U.S. domestic livestock, etc.

2/ This amount equals approximately 4 million metric tons committed to the Food Security Wheat Reserve.

Source: USDA, Agricultural Stabilization and Conservation Service

As with quantities, the values of these commodities change continually. However, ASCS valued the total CCC inventory as of June 30, 1984, at about $8 billion. The October 1982 value was about $5.1 billion. The amount the Department actually might receive for selling these items presently would depend on a number of variables, including current loan rates, market conditions, quality or grade of the surplus, and so forth.

Storage Costs

Storage and handling costs for all surplus commodities in FY83 totaled about $483.589 million, up considerably from FY82, when the cost was $239.231 million. ASCS officials explained that part of the FY83 increase reflects PIK-related costs. The agency estimates that FY84 costs will be about $500 million.

Table 3 shows current average annual storage and handling costs, by commodity.

TABLE 3. AVERAGE STORAGE AND HANDLING COSTS

Commodity	Storage Cost (Annual)	One-Time Handling Cost
Wheat (bu.)	33.75 cents	16.3 cents
Corn (bu.)	33.25 cents	16.2 cents
Barley (bu.)	33.50 cents	16.3 cents
Oats (bu.)	33.50 cents	16.4 cents
Rye (bu.)	34.00 cents	16.0 cents
Soybeans (bu.)	35.00 cents	16.3 cents
Rice (cwt.)	101.66 cents	23.6 cents
Sorghum (bu.)	32.80 cents	17.2 cents
Honey (lb.)	1.20 cents	0.39 cents
Butter (lb.)	3.50 cents	0.42 cents
Cheese (lb.)	3.00 cents	0.40 cents
Nonfat Dry Milk (lb.)	1.00 cent	0.39 cents

Source: USDA's Agricultural Stabilization and Conservation Service.

Difficulties With Expanded Distribution

Expanded distribution of USDA surplus foods has been hampered by a number of difficulties. For one, much of the grain now in storage may not be suitable for processing into human foods. CCC-held items like corn and sorghum are generally of a grade or quality that may make them more suitable for feeding livestock.

Even the already processed dairy products may not be packaged in a form useful to institutions or needy families. Much of the cheese in storage, for example, is in 500-pound barrels. Most of the nonfat dry milk is not fortified with vitamins. Surplus butter probably would have to be converted to butter oil, and cheese canned, to prevent spoilage in underdeveloped areas without refrigeration. Such reprocessing is costly.

Transportation to and distribution within Third World countries also is expensive. Quoted rates for shipping bagged grains from U.S. to African ports can be as high as $170 per metric ton; even bulk rates can exceed $100 per metric ton. (Lower rates, mainly on foreign vessels, can often be negotiated, however.) In-country transportation, storage, and distribution costs in some of the lesser-developed areas can exceed the value of the food itself, one food aid specialist points out.

Opponents of expanded food aid have cited additional problems as well. They question the nutritional impact of providing certain foods that may not be suited to the diets of needy persons. They raise concerns about creating disincentives for a recipient country to develop

its own agriculture, and about providing food aid to politically or economically unstable nations. (These problems are discussed in more detail in a recent CRS report entitled "Expansion of P.L. 480: Pro/Con Analysis," by Susan Epstein.)

There also have been problems in providing surplus foods to the needy in the United States. Officials of State and local agencies had complained that they lacked the resources to receive and distribute extra USDA commodities above normally allocated amounts. This problem was relieved to some degree by passage of the 1983 Emergency Jobs Bill, which provided $50 million for State and local distribution expenses. A later law revised and extended this authority through FY85.

Because of the magnitude of the initial release in 1982 of additional amounts of USDA commodities, a number of producer groups complained that commercial sales, particularly of cheese, were being displaced. Congress and the Department subsequently tightened administration of the enhanced commodity giveaway program, and the amounts of foods available each month were scaled back. Table 4 shows the amounts currently being made available nationally under the special distribution program. (For more details on domestic distribution, see Issue Brief 83061--Federal Food Donations.)

TABLE 4. MONTHLY ALLOCATIONS[1]/

Commodity	Amounts (pounds)
Cheese	35 million (plus some bulk cheese)
Butter	12 million
Nonfat dry milk	5 million (plus bulk nonfat dry milk)
Honey	5 million
Corn meal	3 million
Flour	8 million
Rice	2 million

1/ Represents "bonus" USDA commodities being made available to domestic outlets under special distribution program started in 1983.

SOURCE: USDA's Food and Nutrition Service.

84-710 ENR

Congressional Research Service
The Library of Congress

Washington, D.C. 20540

THE DAIRY PRODUCTION STABILIZATION ACT OF 1983: A PROGRESS REPORT

Geoffrey S. Becker
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August 1, 1984

ABSTRACT

Congress enacted the Dairy Production Stabilization Act of 1983 on November 29, 1983, to help stem the growing surplus of U.S. dairy products—and the Federal cost of acquiring them. The new law trimmed the support price, created an unprecedented paid milk diversion program, and authorized a nationwide dairy products promotion campaign. This report provides observations on the law's progress to date.

THE DAIRY PRODUCTION STABILIZATION ACT OF 1983: A PROGRESS REPORT

INTRODUCTION

Title I of the Dairy and Tobacco Adjustment Act of 1983 (The Dairy Production Stabilization Act), signed into law on November 29, represented the fifth attempt by Congress since 1981 to check the rising cost of the Federal milk price support program. The annual price tag grew from $244 million in FY79, when the U.S. Department of Agriculture's Commodity Credit Corporation (CCC) purchased about 1.1 billion pounds (milk equivalent) of surplus cheese, butter, and nonfat dry milk, to a record $2.528 billion in FY83, when 16.6 billion pounds were purchased. Production was running about 10 percent ahead of demand last year.

Will the new law achieve its intended objective? A number of critics believe it will not. Supporters disagree, citing recent downward trends in milk production and USDA dairy acquisitions, and improved demand, as evidence of its success.

THE 1983 LEGISLATION

Despite a number of attempts by Congress since 1981 to check the rising cost of the Federal dairy price support program, farmers continued to produce far more milk than was needed to meet domestic and overseas demand. 1/ Deciding

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1/ For background on recent efforts to modify the U.S. dairy program, see Dairy Price Support Legislation: A Recent History (Report No. 84-52 ENR), by CRS analyst Geoffrey S. Becker, March 1, 1984.

SIGNUP DETAILS AND OUTCOME

Dairy farmers were permitted to sign up for diversion payments at county Agricultural Stabilization and Conservation Service offices during January 1984. Each participant entered into a contract with USDA agreeing to reduce marketings by at least 5 percent but no more than 30 percent below an established base. Each producer had the option to select, as his or her base, marketings for either calendar 1982 or the average of calendar 1981 and 1982.

In an analysis of the January milk diversion signup, USDA's Economic Research Service (ERS) reported that nearly 38,000 producers signed contracts to reduce marketings below their base. That represents about 12 percent of all operations with milk cows but about 20 percent of all commercial dairy farmers, according to the analysis, published in the March 1984 issue of USDA's Dairy Outlook and Situation.

Producers contracted to reduce their output by about 9.4 billion pounds between January 1984 and March 1985, the entire length of the diversion period. Planned reductions for calendar 1984 alone are 7.5 billion pounds, representing about 5.4 percent of total U.S. production in calendar 1983, ERS reported. About two-thirds of those who signed up for diversion payments agreed to reduce output by 26 to 30 percent; 11 percent of all participants agreed to between a 5 and 10 percent marketing reduction.

ERS said that participation rates varied greatly among different parts of the Nation. Contracted rates were heaviest in the South, the Plains States, the western Corn Belt, and some Mountain States. However, they were relatively limited in the Northeast, the Lake States and the Pacific--the Nation's major

that even stronger inducements to lower dairy production were needed, the 98th Congress agreed last November to a compromise dairy reduction plan drafted by leaders of the House and Senate Agriculture Committees. The new measure (P.L. 98-180) authorized a three-part approach to the problem:

1. It immediately reduced the Federal support price for manufacturing-grade milk by 50 cents, to $12.60 per hundredweight (cwt., or hundred pounds), and put two additional 50-cent reductions on standby for 1985. The Secretary is authorized to implement a second 50-cent reduction, to $12.10 per cwt., on April 1, 1985, if CCC purchases for the coming year are projected to exceed 6 billion pounds, milk equivalent. He can reduce the level to $11.60 on July 1, 1985, if projected purchases over the next year are expected to exceed 5 billion pounds. (He also can raise the support price by 50 cents if purchases on July 1 are expected to be 5 billion pounds or less.)

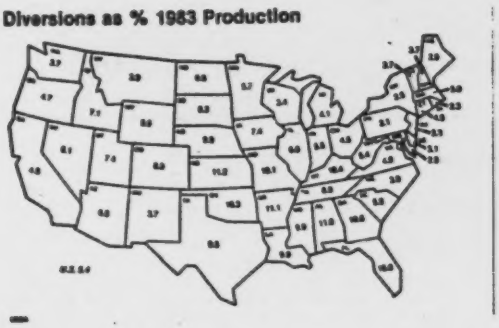
2. It created a 15-month diversion program that for the first time pays dairy farmers $10 for every hundred pounds they agree to reduce output. The reductions must be between 5 and 30 percent below a predetermined marketing base. The diversion program is being funded by an assessment on all producers of 50 cents per cwt. of milk marketed. This program ends on March 31, 1985.

3. It authorized a national dairy products promotion campaign that is expected to raise about $130 million in new promotion revenues, over and above the money already spent in State and regional campaigns. Farmers are paying for the new effort through an additional assessment of 15 cents per cwt. of all milk marketed. Dairy producers will vote by September 30, 1985, on whether to continue the national promotion after that date.

THE DAIRY DIVERSION PROGRAM

The dairy diversion program has proven to be the most controversial part of the 1983 law. A number of analysts, after examining the results of the producer signup and early 1984 figures on milk production and CCC acquisitions, suggested that the program would fall far short of initial expectations. Supporters of the diversion, however, believe the data provide evidence that the program has in fact helped to halt the upward spiral in Federal dairy product purchases.

dairying regions. (See map and table A) USDA dairy analysts predicted that the program will probably spur the greatest milk reductions in Georgia, Florida, Kentucky, Nebraska, Kansas, Missouri, Oklahoma, and Arkansas.



ASSESSMENT OF THE DIVERSION PROGRAM

The January signup did fall short of what many had expected when the dairy legislation was enacted in November. Dairy experts had noted at that time that milk supplies were running 10 percent or more ahead of demand; diversion contracts called for a 1984 reduction of just 5.4 percent below 1983 output.

The actual 1984 reduction could be less than the 5.4 percent suggested by the contracts—perhaps as low as 2 percent, according to some analysts. That is because many of those who signed contracts had already cut output below their established bases for reasons not necessarily related to the diversion program. In such cases, the Federal Government is paying some participating farmers for milk that would not have been marketed regardless of whether or not there was a diversion program. In addition, a number of producers who decided not to participate may in fact be increasing their output, offsetting participant reductions, according to critics.

Table A—Milk diversion program: Signup summary

State	Operations with milk cows	Unit enrolled	Base enrolled[1]	Total diverted[1]	Percent of enrolled base diverted[1]	Planned slaughter due to:	
						Normal culling[2]	Diversion program[2]
	Number		Cwt		Percent	Number	
Alabama	2,500	172	2,408,745	630,703	26.18	3,741	2,433
Arizona	800	43	3,504,250	844,634	24.10	6,941	3,921
Arkansas	5,000	459	3,546,419	969,597	27.34	4,049	3,499
California	5,500	651	36,737,344	7,133,515	19.42	69,237	24,559
Colorado	3,800	207	3,303,394	836,235	25.31	7,232	3,812
Connecticut	1,000	116	1,552,146	294,241	18.96	2,734	1,572
Delaware	250	21	196,343	42,102	21.44	244	261
Florida	1,700	185	12,651,163	3,172,814	25.08	34,212	11,779
Georgia	2,700	363	5,847,885	1,500,529	25.66	8,922	5,207
Idaho	4,500	579	6,297,315	1,641,739	26.07	10,010	6,275
Illinois	6,100	1,171	8,468,790	1,794,628	21.19	14,579	11,001
Indiana	8,100	662	5,695,328	1,290,749	22.66	8,781	7,404
Iowa	12,000	2,649	13,635,099	3,202,053	23.48	23,826	18,048
Kansas	5,000	942	6,653,619	1,580,813	23.76	12,397	8,698
Kentucky	9,500	1,783	9,463,401	2,501,871	26.44	12,495	10,948
Louisiana	3,700	307	3,466,306	859,408	24.79	4,793	2,557
Maine	1,900	110	905,804	218,538	24.13	1,616	991
Maryland	2,300	199	2,167,637	424,848	19.60	3,831	1,868
Massachusetts	1,100	144	1,396,226	306,571	21.96	2,589	1,564
Michigan	9,000	1,282	10,332,608	2,256,774	21.84	17,636	11,938
Minnesota	25,000	5,421	27,463,957	6,247,421	22.75	46,844	33,796
Mississippi	2,800	354	3,260,687	876,310	26.88	4,778	2,902
Missouri	11,500	1,813	12,252,398	3,118,372	25.45	18,503	14,862
Montana	3,300	80	641,328	137,422	21.43	1,100	916
Nebraska	5,000	1,031	5,705,328	1,400,735	24.55	9,649	6,988
Nevada	400	7	639,230	144,256	22.57	1,375	742
New Hampshire	800	60	606,048	140,913	23.25	1,078	770
New Jersey	900	83	821,318	163,407	19.90	1,434	451
New Mexico	1,600	36	1,298,105	348,556	26.85	2,353	1,182
New York	18,000	1,490	13,361,976	2,936,615	21.98	22,521	11,397
North Carolina	6,000	225	3,049,549	673,302	22.08	4,489	3,460
North Dakota	4,900	594	2,767,997	706,702	25.53	3,785	2,739
Ohio	11,700	1,353	9,836,611	2,138,161	21.74	15,701	11,703
Oklahoma	6,000	523	4,687,821	1,204,966	25.70	7,279	4,967
Oregon	4,800	178	2,894,050	641,635	22.17	5,227	2,795
Pennsylvania	21,000	1,227	9,713,418	2,032,203	20.92	15,637	9,461
Rhode Island	130	5	40,049	10,354	25.85	8	17
South Carolina	2,200	85	1,492,995	329,324	22.07	2,393	1,363
South Dakota	6,400	1,196	5,987,607	1,520,453	25.39	10,755	7,356
Tennessee	8,500	897	7,510,609	1,968,988	26.22	10,457	8,852
Texas	10,000	854	14,452,930	3,800,935	26.30	19,492	12,243
Utah	2,800	268	3,870,952	867,272	22.40	6,699	3,773
Vermont	3,800	458	4,267,925	900,444	21.10	7,631	3,709
Virginia	8,000	423	4,766,736	1,011,517	21.22	7,670	4,606
Washington	3,600	237	5,430,850	1,285,690	23.67	8,483	5,522
West Virginia	3,800	120	936,775	203,950	21.77	1,492	890
Wisconsin	44,000	8,597	41,529,573	8,561,044	20.61	65,064	45,002
Wyoming	1,200	58	478,377	115,949	24.24	793	635
Total	303,580	37,888	327,994,956	74,989,460	22.86	552,493	339,232

[1]Annual basis. [2]15-month base.

SOURCE: USDA, Dairy Outlook and Situation, March 1984

Critics of the program also suggest that participants who have been cutting back will begin to expand their herds near the close of their diversion contracts, setting the stage for a significant expansion in production—and CCC acquisitions—after March 31, 1985.

USDA experts have pointed out that purchases of surplus dairy products are expected to reach about 11 billion pounds in the 1983-84 marketing year, which ends September 30. These purchases and continuing high production are still running well above the levels of only a few years ago. In short, the Nation could well continue to have a large dairy surplus on its hands for some time to come.

Nevertheless, USDA has reported data suggesting that the diversion program has contributed to a reversal of the long-term upward trend in milk production and CCC removals. By January 1984, national milk production had stabilized compared with January 1983 figures. February, March, and April production were 1.8 percent, 2.6 percent, and 2.4 percent below year-earlier levels. For January to April, production was down about 1.7 percent from the same period in 1983; USDA in June predicted that Calender 1984 milk production would be 2.5 to 4.5 percent below 1983, when output totaled 140 billion pounds. 2/

The diversion program's supporters believe that figures on CCC dairy acquisitions offer even more convincing evidence that the new law is working. For example, CCC purchases were about 30 percent less in the January through April 1984 period than the same 1983 period. Dairy cows are down, too, from 11.17 million head last November 1 to about 10.85 million by June. Program defenders note that the early 1984 decreases in production and dairy cows were recorded after nearly five years of increases.

2/ U.S. Department of Agriculture, Economic Research Service, Dairy Outlook and Situation, June 1984.

Department and other dairy specialists believe that CCC acquisitions are declining due to the improving performance of the private market. Commercial use for all dairy products between January and April was up 6 percent from a year earlier, measured on a daily average basis, according to USDA economists. For the period, American cheese sales inceased 18 percent from year-earlier levels. Other cheese sales were up 6.5 percent, butter 6 percent, nonfat dry milk 16 percent, and ice cream 2.3 percent.

The Department now projects commercial use for all of 1984 to be 2 to 4 percent higher than 1983. USDA economists believe demand will remain relatively strong due to the improved price position of dairy products compared with other food, gains in per capita income and population, and the effects of the new promotion program. 3/

An additional theory suggests that some commercial sales may have been displaced by the Federal Government's massive expansion of domestic cheese, butter, and nonfat dry milk distributions to needy families and institutions early in 1982. More careful administration of this effort and tightened eligibility guidelines more recently may have dampened much of the adverse impact on private sales.

IMPACT ON THE MEAT INDUSTRY

Representatives of the beef, pork, and poultry industries had raised concerns last fall that a diversion program would result in one million or more dairy cows coming to slaughter, depressing their prices. USDA analysts now say that the impact has probably been very small, due in part to the low diversion sign-up.

3/ Ibid.

According to USDA, total cow slaughter during the first three months of 1984, at 2,080,000, was 22 percent higher than a year earlier. However, much of the increase was spurred by poor weather conditions during the fall and winter. Of the roughly 379,000 additional cows sent to market during the first three months of the year (compared with 1983), approximately 162,000 were believed to be the result of the diversion program, as the following table indicates.

COW SLAUGHTER 1/

Month	All Cows	Dairy Cows	Dairy Cows Attributed To Diversion 2/
Jan. 1984	775,000	404,000	77,000
Feb. 1984	659,000	336,090	52,000
Mar. 1984	646,000	316,540	33,000
Apr. 1984	628,000	266,272	23,000

1/ Source: Telephone conversation with ERS, USDA, June 12, 1984.

2/ USDA estimate.

Cow prices were $33.58 per cwt. in December and $33.26 in January. However, they rebounded to $40.00 in February and $44.00 in March, and remained relatively stable at $43.00 in April and $42.50 in May, USDA reported. Again, analysts suggested that prices were lower during the early winter due primarily to the weather, rather than to the diversion program.

DAIRY PROMOTION PROGRAM

Program supporters emphasize that the diversion program is just one of a three-part strategy designed by Congress to reduce the surplus. They point

out that the dairy products promotion campaign is just getting underway. When it is in full swing, roughly $130 million annually in new advertising money will be pumped into efforts to increase consumption. To place that figure into perspective, total 1983 promotion spending for all of the other half-dozen or so federally-authorized, free-standing agriculture promotion programs (wool, cotton, potatoes, etc.) was just $23.1 million. The dairy budget will be on a par with the branded advertising budgets of a number of nationally marketed food products that enjoy wide recognition, it has been noted.

A final rule spelling out procedures for the new promotion program appeared in the March 28 Federal Register. On May 1, USDA's Agricultural Marketing Service began collecting a 15-cent per cwt. assessment on all milk marketed. Unlike other agricultural commodity promotion programs, producers cannot request refunds of their assessments. However, they can receive credit for up to 10 cents per cwt. that they currently donate to qualified State and regional dairy promotion activities (and, for May only, credit for up to 15 cents).

Agriculture Secretary John Block on May 16 announced the appointment of 36 members to the national promotion board, selected from a list of some 150 nominees. The board held its first meeting on May 30, where Mid-America Dairymen President Ivan K. Strickler was appointed chairman and committees were established on advertising and sales promotion, program evaluation and development, and other areas. The board in July authorized spending the first $51 million, nearly half of which will go for the promotion of cheese.

One key stumbling block to development of the promotional effort was whether to allow branded as well as generic advertising. A number of dairy groups opposed the funding of branded (trade name) advertising, contending

that generic (non brand) messages could increase consumption without causing a myriad of administrative and fairness problems. However, others argued that branded advertising could increase total sales of all dairy products and would make any generic advertising more effective. The dairy board, at its first meeting, decided to initially pursue only generic efforts but to reconsider branded activities at a later date. 4/

EFFECTIVENESS OF THE PROMOTION PROGRAM

Will the promotion program prove effective? Proponents are banking on it to significantly boost consumption of dairy products. However, the relatively limited evaluations of past nationwide promotions make it difficult to predict the outcome.

Analysts at USDA and elsewhere have indicated that the effects of generic advertising have been difficult to isolate from other factors that tend to influence demand, such as brand advertising, improved processing and marketing techniques, product quality improvement, and price and consumer income changes.

On the other hand, researchers have found evidence that dairy product advertising has worked. For example, a three-year study by the American Dairy Association, part of the United Dairy Industry Association (UDIA), concluded that each million-dollar increase in generic advertising and promotion increased cheese sales marketwide by 22.7 million pounds (with 11.3 million pounds sold at the consumer level). The study authors stated that two "Cheese Adds a Slice of Life" campaigns had helped to reduce the cost of CCC cheese acquisitions by $288 million. 5/

4/ Dairy Industry Newsletter, March 9, 1984.

5/ Runiewicz, Tom, "Nonbrand advertising sells cheese...lots of it," Hoard's Dairyman, June 10, 1983.

Assuming those figures are correct, whether a new nationwide dairy campaign can log a similarly attractive record is not known. Much will depend upon decisions made by the board and on the actual conduct of the advertising effort. Moreover, researchers currently know little about the long-term effects of generic advertising of farm products, among other uncertainties.

One additional problem is that the program will have been in operation for barely one year when producers will be asked to approve an extension. That is very little time to establish an adequate performance record, several analysts have commented. Also, experience in other agricultural promotion campaigns has suggested that many growers possibly lose interest in paying for such activities when industry profits are down—regardless of the perceived success or failure or the program. 6/

CONCLUSION

Critics remain skeptical of the 1983 compromise legislation and its likely long-term effect on the Nation's milk surplus. They observe that the milk surplus could still climb above 6 billion pounds, milk equivalent, in 1985, indicating that the program needs more drastic surgery—such as lower levels of Federal support—in conjunction with work on a new farm bill next year.

Defenders of the program are more optimistic. They cite a Congressional Budget Office (CBO) estimate that the dairy support program will cost the U.S. Treasury no more than $1.5 billion in FY84, $1 billion less than the FY83 cost of $2.5 billion. They also point out that dairy producers themselves are

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6/ A more complete discussion of generic commodity promotion is available in An Examination of Commodity Promotion Programs (Report No. 84-583 ENR), by CRS analyst Geoffrey S. Becker, March 22, 1984.

paying for virtually all of the costs for the $930 million diversion, through the 50-cent assessments as well the cost of the $130 million promotion, through the 15-cent assessments. Demand has been strengthening, and production is a bit below year earlier levels. Those developments, along with the prospect of two additional 1985 reductions in the support price, should help to bring production more into line with demand without unduly harming large numbers of small farmers, they conclude.

PREPARED STATEMENT OF REV. CARL SHELTON, EXECUTIVE DIRECTOR, SELF HELP AND RESOURCE EXCHANGE, SHARE

HUNGER IS UNACCEPTABLE

During the past ten years, numerous panels, commissions and committees have taken up the issue of hunger, both domestically and globally. Recently, we have had excellent information from the Citizen's Commission on Hunger, the Center on Budget and Policy Report, the Census Bureau Report and the 1983 President's Task Force on Food Assistance. All of these prestigious reports have come to the same basic conclusion: Hunger exists as a very real condition for a significant number of people, despite the fact that sufficient resources are available for every human being to be well-nourished.

It is not our purpose in this testimony to restate the findings of others. More information regarding the status-quo will not alter the conditions that allow hunger to persist. Our purpose is to report on the activities and experiences of SHARE (Self Help and Resource Exchange) in such a way as to open up the possibilities of what might be done with the information currently available to cause hunger to end.

The problem of hunger is huge and devastating. Current policies lean toward the alleviation of hunger rather than its eradication. This implies that a certain amount of hunger is acceptable. SHARE declares that the persistence of hunger is completely unacceptable and that now is the time to take action that will end hunger, once and for all, forever.

What's urgently needed is to make ending hunger a major national priority involving all sectors of public and private life. The problem is simply too immense to leave its solution in the hands of the "expert community." Ending hunger needs to become woven into the fabric of our day-to-day world; to become the responsibility of every man, woman and child in America.

It's time for us, as a nation, to declare a no-holds-barred war on hunger. What's been missing in every program, report, policy and charitable outreach is commitment. The time has come for us to take a stand.

Historically, anything that the citizens of the United States have declared as a national priority has been achieved. Anytime we have acted collectively and with purpose, results have been produced. A perfect demonstration of this power was in the 1960's when President Kennedy called forth the commitment of the country to have a man on the moon within ten years. The average citizen of the time had virtually no knowledge of outer-space or of the technology required to get there. Yet, once that possibility had been created, a man on the moon was sourced in the hearts of the American people, and only then brought into being scientifically.

A national priority cannot exist on paper alone. It must be a function of the people. It requires leadership, the kind of leadershp that reflects the popular demand. It has been our experience with SHARE that people care deeply about the hungry of the world. We have yet to encounter an individual who is opposed to the elimination of hunger.

Therefore, it is our assertion that if America was awakened to the possibility of a world free from hunger, it would become the most important national challenge of our time.

Our request of this Select Committee on Hunger is to request Congress and the President of the United States to declare that hunger is unacceptable and to call forth the end of the persistence of hunger as a national priority!

SHARE...A MODEL OF WORKABILITY

Not a charity, The Self Help and Resource Exchange (SHARE) is a self-help program.

The Self Help and Resource Exchange is a partnership which operates as a network, bringing many aspects of the community and the nation together. Through the cooperation of groups such as churches of all denominations, labor unions, schools, senior groups, ethnic self-help groups, military bases and housing associations, SHARE has formed a network of distribution points (Host Organizations) where participants may register for the program.

The SHARE logo depicts two hands holding a stalk of fully-ripened wheat. The wheat depicts the abundance of food that SHARE is channeling into the hands of those in need (currently approx 60,000 people each month), the two hands depict the vital aspect of SHARE--its workability both nationally and internationally.

SHARE NATIONAL

The SHARE partnership begins with the people desiring food assistance being the first and most important partners. SHARE participants exchange $12 and 2 hours of community service for a food package valued between $35 and $40 in grocery stores. SHARE uses the participant's money to purchase the food and their community service hours to package and distribute the food. Because SHARE buys the food, the value of the program is not dependent upon the availability of food donations. This ensures a balanced food package delivered in a reliable and timely manner.

The business community is a partner in accomplishing this by making products and services available at prices which are substantially below their wholesale value. Many times these special SHARE prices reflect the recovery of only incremental costs.

For example, a hot dog manufacturer who makes hot dogs available to SHARE has absorbed all overhead and made all of its profit from existing customers. Then the manufacturer continues making hot dogs, charging SHARE only the actual cost of materials. Similarly, truckers often haul products for SHARE and charge only their fuel costs, absorbing their other operating costs themselves.

Those businesses participating in this partnership do so because of their own personal concern and willingness to make a difference in ending hunger. Most of these businesses participate because the executives and owners of these businesses believe self-help is a better long-term solution to end hunger than charity.

The food package usually consists of more than fifteen items in four categories: meat, produce, bread and staples. Multiple-vitamin supplements are also a part of the SHARE food package. SHARE IS MORE THAN JUST FOOD ASSISTANCE. The program, now operating in San Diego and Imperial Counties, is involved in the first phase of a vision to end world hunger. The first step is the realization that hunger exists and that it need not. The next step is to call forth the commitment necessary to bring hunger to an end.

The SHARE story actually began with Bishop Leo Maher of the Catholic Diocese of San Diego. Approached by Carl Shelton, a former businessman, and now ordained deacon whose spiritual search had led him to spend time with Mother Theresa in India, Bishop Maher agreed with Shelton that there was need and hunger in America, and that indeed, they could do something about it.

Encouraged with the response of the community and armed with the support of the Saint Vincent De Paul Center, Deacon Shelton began the food assistance program. He began contacting farmers, canneries and manufacturers. Soon, friends in the agricultural business began sharing helpful advice, union members pitched in to help with trucking and packing know-how, local markets donated boxes and bags and volunteers, with a vision burning in their hearts to end hunger in the world, began showing up on SHARE's doorstep.

A vital factor in making the SHARE program work is the concept of participation. Not a charity, SHARE is a self-help program in which the recipients actually become partners by participating in purchasing, bagging and distributing the food. Although hundreds work in the warehouse each month to fulfill the service requirements, many others participate in local community projects under the supervision of the Host Organizations.

Just as SHARE is more than food assistance, the Participation Program means more than just getting food distributed. For some, it is a way to restore dignity and pride in their own ability to provide for themselves and their families. For others, the time spent packaging beans and rice, loading oranges or distributing food to Tijuana represents a concrete way to say, "I can make a difference in ending world hunger and I will."

Now SHARE has moved into a new phase in its development. Other cities across the country have taken on the challenge of hunger and have become partners with SHARE. By the end of this year, SHARE programs will be operating in Chicago, Phoenix and Virginia, further demonstating the possibility of making the end of hunger a reality for every person in America.

SHARE INTERNATIONAL

SHARE distributes food that has been donated by private sources to the people of Baja California. Additionally, SHARE distributes surplus dairy products in Mexico through the Agency for International Development's (AID's) Food For Peace Program.

SHARE's project in Mexico is designed to call forth self-sufficiency. While there is no money exchanged for the food (currently SHARE distributes an average of 105,000 pounds of food in Mexico each month), the participants do agree to contribute community service hours to the project. Many of these hours are diverted to the packaging and distribution of the food, similar to the way SHARE operates in the U.S. The remaining hours are targeted for community development projects.

An example of one such project is an intensive gardening experiment aimed at utilizing small plots of ground or even window boxes to grow food. Participants in the project are trained in techniques that maximize the yield of the garden with a minimum of time and resources.

In Tijuana, a group of women pool their food packages and prepare a hot breakfast each day for 40 children. The women use the mealtime to not only provide physical nourishment, but also to address the children's social needs through education on hygiene and nutrition.

A project that is in the planning stage is the development of a channel for marketing the incredible cottage industry skills of the people in Tijuana. Using the resource exchange method, local businesses could supply the raw materials, the people could supply the talent and the profits from the sale of the products could be returned to the people in the form of food.

The possibilities of using community service projects to lay the foundation for ongoing self-sufficiency are endless. SHARE's purpose is to end hunger--both the very real physical hunger that is present, as well as the spiritual hunger that is born of the despair and hopelessness of a world condition that allows hunger to exist. It can be easily seen that within the success of SHARE's first year lies a spirit of unity in diveristy - many different people from all walks of life working together to make the world a better place to live. Hunger exists...it doesn't have to. SHARE has taken a stand for its end.

RECOMMENDATIONS

SHARE asserts that in the absence of a National Commitment to the end of hunger, that any recommendations, programs or policies, no matter how worthy, will lack sufficient potency to elevate them beyond the level of being merely a gesture. After establishing the end of hunger as a national priority, SHARE offers the following specific recommendations for action:

1. **SHARE** recommends government support in making long-term, low-interest loans available for expanding and maintaining self-help food assistance programs.

One vital way the government could be effective is to make low-interest, long term loans available to self-help programs for equipment, warehouses and other facilities. This would enable these programs to reduce the "seed money" necessary to develop the programs to a point of self-sufficiency.

SHARE asserts that self-help methods are essential in building self-sufficiency in the community. It has been SHARE's experience that individuals are usually anxious to participate in programs that offer not only assistance, but also the opportunity to be involved in creating and maintaining their own well-being.

Charity can actually work against the individual by reinforcing a sense of helplessness and dependence upon the "system". In contrast, self-help methods offer challenges to the individual and the possibility of self-sufficiency being achieved.

2. **SHARE** recommends that the tax laws be altered so businesses wishing to encourage and contribute to self-help self sufficiency methods would be able to recover their losses through the same tax incentives that are offered to businesses supporting charity programs.

There is no incentive offered by the Federal Government for any business to be a partner in a self-help approach.

SHARE is aware only of incentives that are offered by the government to businesses that make goods and services available to charity programs that serve individuals who in no way participate, but stand and receive, as a hand-out, whatever aid is being dispensed.

Present tax laws make it possible for a business to recover 150% of their costs when contributing goods and services to charity. This acts as a "dis-incentive" for businesses to work with self-help organizations. The businessess who work with SHARE do so out of a commitment to self-help methods. This ends up being a very costly decision for these businesses because if they had made these same products available to charity there would have been a 150% tax deduction offered through the existing tax structure.

SHARE asserts that businesses who contribute goods and services to self-help programs should have at least the same tax benefits as those businesses that contribute to charity.

3. SHARE recommends that the Congress of the United States establish a definition of domestic hunger.

Without a working definition of domestic hunger it is difficult to effectively intervene until the hungry person is at risk. Hunger in the United States wears a different face than hunger in the Third World and requires a clear definition if we are to end it.

Further, SHARE's experience points to a need to address the non-clinical side of hunger, the despair and hopelessness that work to keep individuals locked in a no-exit situation.

Domestic hunger is malnutrition, or under nutrition caused by the inability to procure adequate or nutritious food for whatever reason. Thus, hunger is not restricted to people who have a low income, but may encompass persons at almost any income level because of sudden catastrophe, loss of employment, illness, accidents, etc. However, the majority of hungry people are in normal conditions that are not catastrophic, they are long-term unemployed, or at low income levels. Children, the elderly, the handicapped and single women are most vulnerable to hunger and most need the government's protection.

3a. SHARE recommends that the congress of the United States establish a national nutritional policy that ensures every citizen a nutritious diet.

Without having an established national nutrition standard, it will be impossible to know if hunger in America is effectively being ended. Further SHARE supports passing HR4684, The National Nutritional Monitoring and Related Research Act of 1984, emphasizing the importance of developing a coordinated system that can provide up-to-date information on hunger and under-nutrition.

4. **SHARE** recommends that the House of Representative Select Committee on Hunger be established as a standing committee.

While SHARE generally supports a "less government involvement" policy, it is our assertion that in order to deal with hunger as a national priority the Congress should have ongoing committee support.

5. **SHARE** recommends that the government establish a network that would bring together the public and private sector to pool their resources in a win-win proposition for ending hunger.

With the vast information systems maintained by the government, it should be possible to establish a resource network to link service agencies, business and those desiring assistance. At a minimum the government could maintain a computer listing by location of these businesses offering goods and services, which could be sent to service agencies upon request.

The government could assist in networking the recipients of service agencies to the labor needs in the business sector. Simultaneously with signing on to offer goods and services, a business can indicate what benefits it may desire to offer its employees, but cannot based on its profit and loss balance.

For example, a company could possibly donate the use of a forklift during non-business hours to a service agency and accrue tax benefit for the market value of that equipment as a rental, while simultaneously coming into contact with the recipients of the service agency, who could offer some sort of service. An illustration would be the unemployed single mother who could offer the donating business a child care service for it employees during work hours, in exchange for the services she received from the service agency.

Additionally, the government could network idle government equipment and facilities for use by social service agencies.

PREPARED STATEMENT OF DR. LAVERN A. FREEH, VICE PRESIDENT, INTERNATIONAL DEVELOPMENT AND GOVERNMENTAL AFFAIRS, LAND O'LAKES, INC.

Chairman Leland and members of the Select Committee on Hunger, my name is Vern Freeh and I'm the Vice President for International Development and Governmental Affairs at Land O'Lakes, Inc., a food and agricultural cooperative owned by 350,000 farmers in an eight-state area of the Upper Midwest.

It is indeed a privilege for me to appear before you today to testify on the ways in which we can use our agricultural abundance in helping to alleviate world hunger.

Our nation is uniquely qualified to take the lead in solving world hunger problems -- through the use of agricultural commodities.

We have an abundance of agricultural commodities. We are the largest food donor in the world and export by far more food than any other nation in the world. Over half of all our wheat and soybeans and nearly a third of our corn and feed grain crops are sold overseas. The majority of all cereals exported worldwide come from the United States.

The earnings from agricultural sales abroad are essential elements to the nation's balance of payments and our export sales contribute significantly to employment and income in our farming, food processing and distribution sectors -- supporting almost 1.2 million American jobs and 28% of the total U.S. farm income.

Beyond the humanitarian aspects of alleviating hunger our nation needs prosperity in developing countries so they can afford to purchase more of our agricultural abundance.

To bring even average per capita food availability up to the levels required to meet minimum nutritional standards in most developing countries would require an increase of at least 65% and perhaps as much as 200% in food imports. The costs of these increased imports would require 18 to 44 percent or more of their foreign exchange values -- a commercial burden they simply couldn't afford. On the other hand, if these additional needed food imports were provided as food, total food aid flow would have to increase 3 to 5 times. Obviously neither our exportable food surpluses or our aid budgets could support such increases -- nor would it be advisable to put the world's people in such a gigantic food dole program.

The solution then lies in our ability to use our agricultural commodities to assist and encourage the developing countries to meet more of their food needs themselves. To accomplish this they must be encouraged and assisted to do away with policies which create disincentives for farmers and discriminate against rural development and rural employment; they must be encouraged and assisted to do a better job of producing, storing and distributing their own food -- and at the same time develop their economies so they can buy whatever food they cannot produce.

Increasing food production in developing countries is critically important in alleviating world hunger -- and an indispensable basis for overall development.

The situation in many food deficit countries is one of widening budgetary deficits, rampant money creation, ballooning rates of inflation, chronic balance of payment problems, growing debt service burdens and stalled economic growth.

In such a situation food aid can provide immediate financial or nutritional relief; but well-designed and managed programs which involve using our agricultural commodities to help these countries develop their country's agricultural sectors and overall economies can do much more. They can help them to improve their ability to assure adequate diets for each of their citizens through increased domestic food production, more efficient food distribution and a greater financial capability to import food commercially.

The development that results benefits not only the recipient countries but our nation as well. These benefits include political gains, increased stability in diplomatic relations and increased market for the products we have to sell.

Helping developing countries to improve their economic performance helps us.

Our PL480 program has been effective in promoting economic and market development. Korea is a good example. The PL480 assistance to Korea which began in 1956 and continued through 1981 delivered over $1.6 billion worth of food aid during these 25 years -- and in the process helped the Korean economy move from a weak economy to a strong economy; per capita income moved from about $100 to over $1500; average exports from $20 million annually to over $18 billion annually; and the agricultural and industrial sectors from a weak to strong condition.

All this came about because Korea got critically needed agricultural commodities from the United States on highly concessional terms. This helped conserve scarce foreign exchange which they needed to import capital goods for development. The local currency generated from the sale of our agricultural commodities also provided crucial support to their economic recovery and reform activities. PL480, along with AID dollar assistance helped fund rural development programs such as agricultural research and extension programs, farm credit services, rural electrification and farm-to-market transportation. In the process Korea developed into a mature commercial market and a major importer of U.S. agricultural commodities. Currently our earnings from agricultural exports to Korea are about to exceed in a single year the total amount of food aid we provided to Korea over two and a half decades. Now, that's what I call a good investment. And the rate of return is still growing.

Unfortunately, despite the fact that we have many examples like Korea, which demonstrate that using our agricultural commodities to alleviate hunger and generate economic development is in our best national interest and in harmony with our basic humanistic values, there are still many in our society and in our public and private sectors who are skeptical about our food aid programs. And that is why I'm pleased to have this opportunity to testify before your Committee today.

For the past three and a half years Land O'Lakes has been heavily involved in international matters. We made the decision to get much more involved internationally because we realized that if we were to be successful in the years ahead and wanted to achieve anywhere near our potential in the world economy in which we operate, we needed to position ourselves to better understand and influence international developments, policies and issues, and we needed to become more actively involved in international trade and in international development activities.

Besides, it was our feeling that international development programs, technical assistance and trade policies were far too important to be left to the government alone. The free enterprise system, American business -- including its cooperatives -- were the driving force in the economic development of our nation, and they can and should be the driving force for development internationally.

We set three goals for ourselves:

(1) to develop new international markets and to greatly expand the export sale of the products produced by our 350,000 farmer members -- utilizing the same quality of products and services in our international effort as in our domestic efforts.

(2) to become actively involved in international development activities -- helping people in other countries to develop their food and agricultural industries and their economies through the use of PL480 commodities, cooperative to cooperative relationships and other innovative approaches in return for long-term market opportunities.

(3) to position ourselves nationally and internationally to better understand and influence national and international trade and development problems which affect Land O'Lakes and its members.

In the development area we are particularly proud of a project we have developed in Jamaica using agricultural commodities under Title II of PL480, and we hope to utilize the commodities under Section 416 as well if we can ever yet the USDA to give us permission to do so.

Basically here is how the project works. Land O'Lakes has organized a nonprofit foundation in Jamaica called the Jamaica Agricultural Development Foundation which is controlled by a Jamaican board of directors and on which Land O'Lakes has a member. The foundation which was staffed initially by Land O'Lakes people is now fully staffed by Jamaicans.

Under the project plan, surplus dairy commodities (bulk cheese and butter) are transferred by the U.S. government to the Foundation which contracts with processors in Jamaica to have the bulk commodities processed into value-added products and sold commercially in Jamaica. Land O'Lakes provides cheese and butter processing technology to the food processors. The profits generated from the sale of these products (an estimated $US 35-50 million over a 6-year period) are used by the Foundation to provide financing in the form of loans, loan guarantees, investments, or grants, for large or small-scale projects designed to improve Jamaican food and agricultural industries and the general

economy. As the Jamaican economy improves they will be in a position to buy more products directly from U.S. companies like Land O'Lakes.

The project gained final approval from the U.S. government in December of 1983 and the first shipment of surplus butter and cheese arrived in Jamaica in June, 1984. Land O'Lakes will play a major continuing role in the project by being on the board of the Jamaica Agricultural Development Foundation, by providing technology to the companies that further process the bulk butter and cheese and by providing management expertise and technical assistance for projects which are generated through the use of the development funds. What we have done in Jamaica serves as a model for development efforts we are launching in other countries.

We are particularly proud of this project because we've been told it's the first of its kind generated by a U.S. company which involves the blending and effective utilization of U.S. private sector technology and expertise, surplus U.S. agricultural commodities and foreign aid funds for development purposes.

We believe that what we are doing can and should be done by other private sector companies and that we have only scratched the surface of what can be accomplished if our private sector and our government effectively work together and use agricultural commodities to meet immediate the needs of developing countries while developing long-term market opportunities for U.S. firms.

Based on our experiences a number of actions are needed to assure the effective use of agricultural commodities to alleviate world hunger.

(1) The funding under Title II of PL480 needs to be increased to meet the existing and potential needs for such programs.

(2) Authorization and guidelines for the barter and sale of Title II commodities and wheat and surplus dairy products under Section 416 of the Agricultural Act of 1949 need to be issued as soon as possible. The barter and sale of these commodities are critical to the effective conduct of programs like the one we established in Jamaica and it's unconscionable that private voluntary organizations and cooperatives like ours that wish to assist in international development activities have been kept waiting nearly two years now for these guidelines to be issued.

(3) Title III of PL480, which allows our nation to grant the money it recovers from agriculture commodities back to countries in order to finance food and agricultural development projects with forgiveness of funds if the project is successful, should be expanded. The self-help provisions of Section 109 of PL480 and the Title III "Food for Development Program" constitute a natural and highly important transitional and development step in assisting countries to enhance their food security and self-sufficiency. Private voluntary organizations and U.S. food and agricultural cooperatives and agribusiness firms should be given incentives and greater responsibilities for designing, negotiating and conducting development programs under this title.

One of the ways to provide incentives is by expanding the authority of Title III to help finance investments by the U.S. food and agricultural cooperatives and agribusiness companies in developing countries. The present initiatives of the Bureau for Private Enterprise in the Agency for International Development could make good use of Title III and should be given more support and resources.

(4) We join with such private voluntary organizations as CARE in requesting that those private voluntary organizations, cooperatives and companies that have established a successful record in the use of agricultural commodities to assist countries to enhance their food security and self-sufficiency should be given a larger measure of responsibility and flexibility in the design and implementation of such programs. Project proposals now must go through a long and rather cumbersome review and approval process involving six agencies of government (USDA, AID, State, Commerce, Treasury and OMB). We believe the opportunity exists for streamlining this process without diminishing oversight responsibility.

Such things as refocusing regulations on development goals, streamlining approval and reporting requirements, and using some agricultural commodities to generate funds to improve food and development projects would substantially improve the timeliness and effectiveness of our food and programs' development.

Mr. Chairman, thank you for the opportunity to testify before your Committee. We commend the members of your Committee for their efforts and stand ready to assist you.

I will be happy to answer any questions you might have.

3700I

PREPARED STATEMENT OF LAWRENCE HARRISON, VICE PRESIDENT, INTERNATIONAL DEVELOPMENT, COOPERATIVE LEAGUE OF THE USA

MR. CHAIRMAN, MEMBERS OF THE SELECT COMMITTEE AND COLLEAGUES, I AM LAWRENCE HARRISON, VICE PRESIDENT FOR INTERNATIONAL DEVELOPMENT OF THE COOPERATIVE LEAGUE OF THE USA, HEADQUARTERED HERE IN WASHINGTON, D.C. FIRST LET ME SAY THAT E. MORGAN WILLIAMS, PRESIDENT OF THE LEAGUE AND ALSO AN ADVISORY MEMBER TO THE SELECT COMMITTEE, ASKED THAT I CONVEY HIS REGRETS IN NOT BEING ABLE TO APPEAR BEFORE YOU TODAY. LAST WEEK, JERRY VOORHIS, FORMER MEMBER OF THE U.S. HOUSE OF REPRESENTATIVES AND CHIEF EXECUTIVE OFFICER OF THE COOPERATIVE LEAGUE FOR ALMOST TWENTY YEARS, DIED. MORGAN IS REPRESENTING THE COOPERATIVE LEAGUE TODAY IN MEMORIAL SERVICES IN CALIFORNIA. HE REQUESTED THAT I APPEAR BEFORE YOU TODAY TO PROVIDE ANY ASSISTANCE THAT THE SELECT COMMITTEE DEEMS NECESSARY IN COMPLETING ITS MANDATE TO ADDRESS NOT ONLY THE PROBLEMS OF DOMESTIC AND INTERNATIONAL HUNGER, BUT TO SURVEY THE PROGRAMS THAT ARE NOW CARRIED OUT BY ORGANIZATIONS, SUCH AS THE COOPERATIVE LEAGUE THAT ADDRESS THE PROBLEM OF HUNGER.

THE COOPERATIVE LEAGUE OF THE USA IS A NATIONAL ASSOCIATION REPRESENTING AMERICA'S COOPERATIVE BUSINESS COMMUNITY. THE LEAGUE'S MEMBERSHIP INCLUDES FARM SUPPLY, AGRICULTURAL MARKETING, INSURANCE, BANKING, HOUSING, HEALTH CARE, CONSUMER GOODS AND SERVICES, STUDENT, CREDIT UNIONS, WORKER, FISHERY, RURAL ELECTRIC, TELEPHONE, STATE ASSOCIATIONS AND OTHER TYPES OF COOPERATIVES.

THROUGH ITS INTERNATIONAL DIVISION, THE COOPERATIVE LEAGUE HAS PROVIDED TECHNICAL ASSISTANCE TO COOPERATIVES OF THE DEVELOPING WORLD FOR MORE THAN THIRTY YEARS IN SEVERAL AREAS RELATED TO THE QUESTION OF HUNGER: AGRICULTURAL PRODUCTION AND MARKETING, GRAIN STORAGE, AGRIBUSINESS, FARM SUPPLY AND EQUIPMENT, FERTILIZER PRODUCTION AND DISTRIBUTION, COOPERATIVE EDUCATION AND TRAINING, RURAL INDUSTRIES, HANDICRAFTS, FISHERIES AND FEASIBILITY ANALYSIS.

THE COOPERATIVE LEAGUE HAS WORKED IN MORE THAN FORTY COUNTRIES IN PARTNERSHIP WITH COOPERATIVE ORGANIZATIONS, HOST GOVERNMENTS AND DONOR AGENCIES, PRINCIPALLY THE AGENCY FOR INTERNATIONAL DEVELOPMENT (AID), BUT ALSO THE WORLD BANK, THE INTER-AMERICAN DEVELOPMENT BANK, AND THE UNITED NATIONS DEVELOPMENT PROGRAM.

IN ITS INTERNATIONAL ACTIVITIES, THE COOPERATIVE LEAGUE CONSIDERS THE STRENGTHENING AND GROWTH OF SOUND COOPERATIVE BUSINESS ENTERPRISES AN IMPORTANT FOUNDATION FOR ECONOMIC DEVELOPMENT. IN OUR VIEW, THE LONG-TERM SOLUTION TO THE PROBLEM OF HUNGER IMPORTANTLY DEPENDS ON RAISING FAMILY INCOMES. COOPERATIVES IN OUR OWN SOCIETY AND AROUND THE WORLD HAVE CONTRIBUTED TO INCREASING INCOME, PARTICULARLY IN RURAL AREAS. OF COURSE, COOPERATIVES GENERATE OTHER BENEFITS. THEY TEACH PEOPLE HOW TO WORK TOGETHER TOWARD COMMON GOALS, AND THEY BOTH ENCOUARGE AND TEACH DEMOCRATIC PRACTICES.

IN ITS WORK IN TWO PROJECTS IN PARTICULAR, THE COOPERATIVE LEAGUE IS HELPING TO PROMOTE THOSE KINDS OF BENEFITS THROUGH THE UTILIZATION OF SURPLUS U.S. FOOD COMMODITIES.

IN INDIA, THE COOPERATIVE LEAGUE HAS BEEN ABLE TO MONETIZE — THAT IS, SELL FOR LOCAL CURRENCY — PL-480 TITLE II EDIBLE OIL AND NON-FAT DRY MILK; THE EDIBLE OIL MONETIZATION HAS RESULTED IN THE FORMATION OF MORE THAN 14,000 PRIMARY LEVEL COOPERATIVES SERVING MORE THAN 105,000 INDIAN FARMERS. THE LOCAL CURRENCY PROCEEDS HAVE BEEN USED FOR WORKING CAPITAL FOR COOPERATIVE OIL PLANTS AND FOR SMALL-SCALE OIL-SEED FARMERS, BUILDING ON THE GREAT SUCCESS OF THE NATIONAL DAIRY DEVELOPMENT BOARD (NDDB) IN PROMOTING MILK COOPERATIVES TO WHICH SEVERAL MILLION SMALL INDIAN MILK PRODUCERS NOW BELONG. THE MILK IS USED AS A BUFFER STOCK FOR THE NDDB'S PROGRAM TO ACHIEVE NATIONAL SELF-SUFFICENCY.

IN INDONESIA, THE COOPERATIVE LEAGUE IS ASSISTING A MULTI-PURPOSE SUPPLY, PROCESSING AND MARKETING FEDERATION COMPRISED OF 35 LOCAL COOPERATIVES PROVIDING SERVICES TO OVER 25,000 MEMBERS. THIS PROJECT IS UTILIZING $1.4 MILLION IN LOCAL CURRENCIES GENERATED FROM PL-480 TITLE II WHEAT SALES, AGAIN, TO PROVIDE WORKING CAPITAL FOR PLANTS AND COOPERATIVE MEMBERS. COOPERATIVE MEMBERSHIP IS GROWING RAPIDLY BECAUSE OF THE DEMONSTRATED BENEFITS FOR MEMBERS.

THESE PROGRAMS IN INDIA AND INDONESIA ARE SIGNIFICANTLY INCREASING THE INCOME OF LARGE NUMBERS OF THE RURAL POOR. THEY ARE EATING MORE AND BETTER AS A RESULT. AN INCREASE IN THE AVAILABILITY OF RESOURCES FOR MORE MONETIZATION PROJECTS UNDER THE FOOD FOR PEACE PROGRAM WOULD PERMIT THE COOPERATIVE LEAGUE AND OTHERS, SUCH AS LAND O'LAKES, WHICH HAS A PROMISING MONETIZATION PROGRAM IN JAMAICA, TO EXPAND THOSE PROGRAMS AND REPLICATE THEIR SUCCESS IN OTHER COUNTRIES.

LEGISLATION ENACTED LAST YEAR BY THIS ADMINISTRATION HAS EXPANDED MONETIZATION OPPORTUNITIES BEYOND THE FOOD FOR PEACE PROGRAM. UNDER SECTION 416 OF THE AGRICULTURE ACT AS AMENDED, PROVISION WAS MADE TO ALLOW FOR MONETIZATION OF SURPLUS DAIRY AND WHEAT COMMODITIES TO HELP THE NEEDY AROUND THE WORLD. HOWEVER, MR. CHAIRMAN, I MUST SAY THAT THE SLOWNESS OF THE U.S. DEPARTMENT OF AGRICULTURE TO PROMULAGE THE NECESSARY IMPLEMENTION REGULATIONS HAS RESULTED IN THE LOSS OF A LOT OF TIME AND OPPORTUNITIES BOTH TO PROMOTE LASTING DEVELOPMENT IN POOR COUNTRIES AND TO REDUCE U.S. SURPLUS STOCKS.

AT A MEETING IN SENATOR MELCHER'S OFFICE A FEW WEEKS AGO, THE USDA REPRESENTATIVES ANNOUNCED THAT DRAFT REGULATIONS WOULD SOON BE PROLUGATED THAT WOULD AUTHORIZE MONETIZATION OF DAIRY PRODUCTS ON A CASE-BY-CASE BASIS UNDER SECTION 416. USDA WAS NOT, HOWEVER, PREPARED TO APPROVE A SIMILAR APPROACH FOR WHEAT. WE IN THE COOPERATIVE LEAGUE BELIEVE THAT USDA'S CONCERNS ABOUT

COMMERCIAL MARKET INTERFERENCE CAN BE ADEQUATELY ADDRESSED BY THE KINDS OF SAFEGUARDS USED IN PL-480 WHEAT PROGRAMS AND THAT ADDITIONAL SAFEGUARDS ARE IMPLICIT IN THE CASE-BY-CASE APPROACH. WE BELIEVE THAT OTHER ORGANIZATIONS THAT USE SURPLUS AGRICULTURAL COMMODITIES, SUCH AS CATHOLIC RELIEF SERVICES AND CARE, SHARE OUR VIEW ON THIS ISSUE.

WE ALSO WANT TO URGE THAT FULL MONETIZATION AUTHORITY BE INCLUDED IN THE IMPLEMENTING OF REGULATIONS. IF MONETIZATION IS LIMITED TO A SMALL PERCENTAGE OF THE TOTAL VALUE OF THE COMMODITIES, THE KINDS OF PROGRAMS WE HAVE HELPED TO MOUNT IN INDIA AND INDONESIA WILL NOT BE POSSIBLE. I WANT TO ADD THAT THE AGENCY FOR INTERNATIONAL DEVELOPMENT HAS BEEN HIGHLY SUPPORTIVE OF SUCH PROGRAMS. HAVING RECENTLY VISITED INDIA AND INDONESIA, I KNOW THAT AID'S FIELD MISSIONS ARE ENTHUSIASTIC ABOUT WHAT IS BEING ACHIEVED WITH SUCH MONETIZATION PROGRAMS.

I HOPE THESE COMMENTS HAVE BEEN HELPFUL MR. CHAIRMAN. I WOULD WELCOME ANY QUESTIONS.

PREPARED STATEMENT OF MICHAEL R. LEMOV, EXECUTIVE DIRECTOR, FOOD RESEARCH AND ACTION CENTER, FRAC

Introduction

Mr. Chairman, my name is Michael R. Lemov and I am the executive director of the Food Research and Action Center (FRAC). FRAC is a private, nonprofit public interest law firm, research center and advocacy organization which for over a decade has worked to alleviate domestic hunger. Our primary focus has been on federal food assistance programs because hunger is a national problem which, we believe, requires a federal response. Further, over many decades, federal food assistance programs have proven their efficacy in addressing hunger. It has been very disheartening to us and to the National Anti-Hunger Coalition, which we have organized, to see America's hungry losing ground over the past several years.

May I emphasize that, Mr. Chairman. America's poorer citizens, its hungry citizens, are definitely falling further behind the rest of the economy. In fact, had there not been major cuts in the food stamp, school lunch and other feeding programs during the past four years we probably would not be here today discussing the emergency distribution of surplus commodities. Just three facts illustrate the desperate, losing struggle of poorer Americans since 1980:

(1) As illustrated by Table 1 on page 3, between 1980 and 1984 the percentage of real, disposable income available to the poorest 20% of our people declined 7.6%, while the wealthiest fifth gained 8.7%.1/

(2) Federal budget and tax cuts cost households earning under $20,000 a year $19.7 billion between 1983 and 1985, while

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1/ Urban Institute, The Reagan Record: An Assessment of America's Changing Domestic Priorities, p. 321 (1984).

households earning over $20,000 gained $34.9 billion (See Table 2 on page 3).2/

(3) During the same period, the Food Stamp Program -- the major federal hunger safety net -- was cut approximately $2 billion per year. Approximately one million people lost Food Stamp Program eligibility during this four year period.

What a sad commentary on our national priorities in the 1980's. So, while we are very pleased that the House of Representatives has created this Select Committee, we are saddened that it was necessary. We hope you work yourselves out of existance by assisting in seriously and substantially addressing the needs of hungry people.

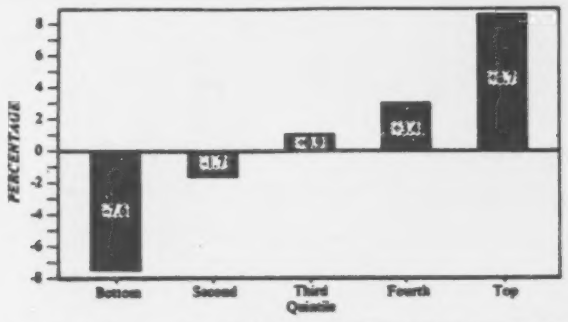
We address reluctantly the issue of emergency food assistance through surplus commodity distribution. Congressman Leon Panetta, Chair of the Domestic Marketing, Consumer Affairs and Nutrition Subcommittee of the Agriculture Committee and a member of this committee, ably expressed FRAC's concerns following introduction of his surplus commodity bill:

> I do want to add a word of caution. And I believe this bears repeating over and over again as we talk about commodity distribution. Everyone who has pressed for the release of additional surplus commodities to feed needy people has emphasized that these commodities are no sub-substitute for the ongoing efforts to feed the poor. While providing additional commodities will be of some assistance in combatting hunger, the impact will be relatively modest. If we were to provide additional commodities and cut the food stamp program at the same time, the net result would likely be more hunger, not less. So I

2/ Congressional Budget Office, The Combined Effects of Major Changes in Federal Taxes and Spending Programs Since 1981, (April 1984).

TABLE 1

PERCENTAGE CHANGE IN REAL DISPOSABLE INCOME FOR FAMILIES, 1980-1984



Source: The Urban Institute (*The Reagan Record: An Assessment of America's Changing Domestic Priorities*, p. XII.)

TABLE 2

Congressional Budget Office Estimate of Impacts of Budget and Tax Cuts Enacted 1981-1983

	Households Under $20,000	Households Over $80,000
1983	-$ 4.2 billion	+$ 9.9 billion
1984	-$ 7.5 billion	+$11.9 billion
1985	-$ 8.0 billion	+$13.1 billion
Three Year Total	-$19.7 billion	+$34.9 billion

Source: Congressional Budget Office, *The Combined Effects of Major Changes in Federal Taxes and Spending Programs Since 1981*, April 1984.

Reprinted from End Results: The Impact of Federal Policies Since 1980 on Low Income Americans, Center on Budget and Policy Priorities, September, 1984

believe that one of the great dangers of enacting this kind of commodity distribution program is that some people will somehow view it as an alternative to other important programs that are now in place, which is simply not the case! (emphasis added)

The Need

Cuts in federal food assistance total $12.2 billion ($7 billion in food stamp and $5.2 billion in child nutrition program benefits) from 1982 through 1985, according to Congressional Budget Office estimates. These benefit reductions have occurred at a time when the need for assistance has been growing. The number of Americans living in poverty climbed to $35.3 million -- that is almost one in every seven people who live in the United States. To put it another way, it is as if the entire populations (about 6 million) of the states of Massachusetts or North Carolina had fallen into poverty since 1980.

The number of potentially eligible persons not served by the Food Stamp Program has also increased dramatically - from about 10.7 million in 1980 to 13.8 million in 1983. Table 3 traces participation in the food stamp program from 1980 to 1983. The poverty population is used as a proxy for the eligible food stamp population and may actually understate our case since the eligibility guideline for all but elderly and disabled recipients is 130% of the poverty line. Not all persons with incomes below 130% of poverty meet the assets test, however, so we have chosen the more conservative proxy.

Professor Richard Coe of the New College of the University of South Florida has identified three groups which are least likely to participate in the Food Stamp Program - the elderly (one-half of the non-participant households are elderly headed, the working poor (one-quarter of non-participant

TABLE 3

	Poverty Population	Food Stamp Program Caseload	
		Number	%of Poverty Population
1980	29.8 million	19.2 million	64%
1981	32.1 million	20.6 million	64%
1982	34.4 million	20.3 million	59%
1983	35.3 million	21.6 million	61%

Non-Participant Eligibles

	Percent	Number
1980	36%	10.7 million
1981	36%	11.6 million
1982	41%	14.1 million
1983	39%	13.8 million

NOTE: The 1980 and 1981 caseloads are adjusted to exclude the Puerto Rico caseload.

Source: FNS, USDA and U.S. Bureau of the Census, Commerce Department.

households work fulltime) and persons residing in rural areas (one-third of non-participant house holds live in counties in which the largest city as a population of less than 25,000). The greatest barrier, Coe states, is lack of program information; i.e., the non-participants believe that they are not eligible for the program.3/

The demand for emergency food assistance is in part a function of the millions of eligible persons unserved by the Food Stamp Program. This demand is also caused by the inadequate benefits provided to those receiving food stamps. The inadequacy of food stamp benefits is widely acknowledged although debate exists with respect to the degree of inadequacy. The President's Task Force on Food Assistance recommended a number of program restorations costing in the neighborhood of $300 million per year. Dr. Larry Brown of the Harvard University School of Public Health and the Citizens Commission on Hunger has recommended increases of 25%-30% in benefits costing about $3 billion per year.

FRAC's study of a year ago, Still Hungry: A Survey of People in Need of Emergency Food, based on a nationwide survey of 1,023 recipients of emergency food assistance, confirms the need for program restorations. Sixty-two percent of these receipients were receiving food stamp benefits but fully 77% - over three quarters - reported that their food stamps and other resources were depleted by the second or third week into the month. Only 4% indicated that they had enough food stamps and other resources to purchase sufficient food for their families.

3/ Coe, Richard "Participation in the Food Stamp Program, 1979", 5,000 American Families, Volume X, edited by Greg Duncan and James Morgan. Ann Arbor, Michigan, Institute for Social Research, 1983, pps. 125-130.

We are in the process of updating the FRAC survey to measure whether the need for emergency food assistance has changed in 1984. We will be pleased to furnish this new data to the Committee.

However, the Food Network in Montgomery County, Maryland -- the richest county in the United States -- will be releasing a new study next month of the county's emergency food assistance needs. Preliminary results indicate a one-third increase in 1984 over 1983 in emergency food packages provided through food pantries. In the past year, the first two soup kitchens in the county have opened and a third is in the planning stage.

Current Status of Emergency Surplus Commodity Distribution

The private, voluntary sector has made an herculean effort to meet the needs of America's hungry, but they cannot go it alone. We spoke informally last week with ten emergency food assistance providers across the country which distribute surplus commodities. This information is, of course, anecdotal, but provides a direction for further inquiry. They told us that the $50 million in administrative funds provided in last year's Emergency Food Assistance and Commodity Distribution Act have been pivotal in their decision to continue surplus commodity distribution. However, there are serious obstacles including:

1) Receiving commodities in forms not suitable for distribution. For example, one pantry reported receiving three pound jars of honey which are difficult for recipients without a car to carry home. Also the five pound blocks of cheese create similar difficulties. One pound blocks of cheese might be more appropriate to meet participant need and consumption patterns.

2) Uneven supplies of certain commodities. For example, several pantries stated that they receive sufficient cheese but only small amounts of butter, rice, corn meal and powdered milk. As a result, some families receive a reasonable balance of commodities while others receive only cheese.

3) Red Tape. The paper work associated with income verification, accounting for federal administrative funds and the commodities themselves has caused one provider to drop out of the program and threatens the continued participation of others. Most disturbing was the one report of an audit by USDA. Federal officials found 600 pounds -- less than 1% of the cheese distributed through sixteen outlets in one county staffed solely by volunteers -- unaccounted for. The provider was told that they would have to reimburse USDA $1,000 for the missing cheese. The other nine providers had not yet been audited.

4) Difficulty in serving rural areas because of extraordinatry transportation costs.

Overall, the providers indicated that they remain in the program largely because the need is so great. We would like to note that the most recent USDA data, for May, 1984, on surplus commodities distributed for emergency purposes showed a 31.5% reduction in the dollar value of commodities distributed compared with May, 1983.

It seems particularly troublesome to us that the same sectors of the poverty population unlikely to participate in the food stamp program - the elderly, the working poor with full-time jobs and rural inhabitants - are the

same sectors for whom access to the commodity distribution program is also problematical.

Because of the limitations inherent in the existing emergency surplus commodity program, FRAC has developed an alternative approach which we call the "Surplus Commodity Supplemental Food Stamp Program". It would work as follows:

Surplus Commodity Supplemental Food Stamp Program

If surplus commodity distribution is here to stay as a de facto supplement to food stamp benefits,[4/] a system should be devised to provide more rational and equitable use of our surplus. We have appended to our testimony a paper which lays out the basics of a plan to utilize existing agencies; i.e., state welfare offices, and food distribution channels; i.e., retail grocery stores, to provide surplus commodities to needy persons. Such a program would provide free supplemental coupons to food stamp recipients to purchase USDA - designated Section 416 surplus commodities. This would assure targeting to the neediest persons and provide income verification at no additional costs to federal or state governments. These coupons would be used in retail grocery store to purchase a quantity of a given commodity. This would eliminate market displacement and support existing food distribution systems without creating new ones. Further, needy recipients would have access to commodities at convenient times and locations.

4/ Since the 1981 Farm Bill in which the prohibition in Section 4(b) of the Food Stamp Act of 1977 on the dual receipt of food stamps and surplus commodities was waived, Congress has recognized the shortcomings of the benefits provided by the Food Stamp Program.

We are not ready to support the creation of such a program until a number of questions involving administrative feasibility, costs and assistance to needy persons not participating in or not eligible for the Food Stamp Program are answered. Nonetheless, we think the idea has promise.

One issue that would have to be resolved is access to surplus foods by child nutrition programs. Schools may receive surplus commodities, known as "bonus foods". These foods are designated in surplus by USDA and are available without regard to entitlement commodities to encourage greater consumption. Some bonus foods such as processed cheese, cheddar cheese, butter and nonfat dry milk may be received in quantities that can be used without waste while others are offered in limited quantities. The greater the utilization of bonus items, the greater the per meal contribution of commodities. Indeed, school food service officials suggest that per meal costs can be reduced by $.12 to $.14 by the efficient use of bonus commodities. School food authorities should be able to receive all entitlement commodities and the same percentage of bonus commodity in future years as they did in fiscal year 1984. This is also an important consideration in debating the Surplus Commodity Supplemental Food Stamp Program.

Conclusion

Federal budget decisions relating to food programs, and tax law changes over the past four years have had a devastating impact on poorer Americans, children and the elderly. The result has been a substantial increase in hunger. Commodity distribution programs can play a important role in minimizing the impact of these decisions, but only on an emergency basis.

More commodities in lieu of more adequate food stamp benefits may lead to more, not less, hunger. The thirty year history of the Needy Family Program bears this out. In March of 1983, USDA released a lengthy study entitled, "An Assessment of Nutrition Assistance Programs Including the Procedures Required to Reinstate Direct Commodity Distribution to Needy Households". The report found that the reinstatement of the Needy Family Program would cost more, not less, than the Food Stamp Program and at the cost of "less precise benefit targetting, less responsiveness to recipient food preference and the possibility of reduced program participation by eligible low income families". The report concludes, and FRAC concurs, that "in the long run, it is better to rely on the substantial assistance provided by the Food Stamp Program and the National School Lunch Program which provide an ongoing floor of support which is further augmented by ten other supplemental programs ... meeting special needs associated with maternity, childhood and aging".

We appreciate the opportunity to testify before the Select Committee on Hunger. The FRAC staff, including lawyers, nutritionists, and field workers, would be happy to furnish the Committee with any additional information or assistance which might aid you in your important work.

APPENDIX

A Proposal to Create A Surplus Commodity Supplemental Food Stamp Program

The Problem

At present, there are several problems in the area of federal food and agriculture policy about which broad agreement exists:

1) Benefits under the Food Stamp program are insufficient to assure adequate nutrition for the nation's poor. (Debate does exist with respect to the degree of inadequacy. The President's Task Force on Food Assistance recommended a number of program restorations costing in the neighborhood of $300 million per year. The Food Research and Action Center and Dr. Larry Brown of Harvard University School of Public Health and the Citizens Commission on Hunger have recommended increases of 25-30% in benefits costing in the area of $3 billion per year.)

2) The farm economy periodically generates surpluses even with the best of price support programs. Typically, these surpluses occur in times of high unemployment and, hence, when the need for food assistance is greatest.

3) Distribution of government purchased surplus commodities through local charitable organizations is cumbersome, often poorly targeted, available only in limited locations and times,

and wasteful (the commodities are often in deteriorated condition by the time they reach the poor who often do not have facilities properly store bulk commodities). Further, industry representatives have charged that commodity distribution has "displaced" commercial sales.

The Proposal

A surplus commodity supplemental food stamp could help in addressing each of these problems. Such a program would provide free supplemental food coupons to food stamp recipients (these coupons would supplement not replace benefits provided under the Food Stamp Program which provides a diet, the Thrifty Food Plan, which is nutritionally adequate only for short periods of time).* This would assure targeting to the neediest persons and provide income verification at no additional cost to the state or federal government.

The coupons would have a quantity value (e.g. one gallon of milk). Coupons would expire after a set period of time to prevent stockpiling.

These coupons would be solely for the purchase of USDA designated surplus commodities - principally the Section 416 commodities; i.e. milk, cheese, butter, rice, corn meal and honey. (This is similar to the current WIC vouchers which are redeemed in grocery stores for specific nutritious foods), These coupons would be used in "normal channels of trade"; i.e., retail grocery stores to purchase these commodities. Thus, the program would

use and support existing food distribution systems instead of creating new ones. Further, needy recipients would have better access to commodities at convenient times and places. This is especially important to residents of rural areas and the working poor.

The program would serve to increase demand for specific agriculture products in surplus through the market system. Availability of the vouchers would be "triggered" when government purchases reached a statutorily desgnated level. The need for storage facilities and administrative structures required under the nonrecourse loan and government purcahses programs would be substantially diminished and, concomitantly, the cost of these programs. In the case of milk, the cost of processing from fluid to dry milk would also be eliminated. Additional cost savings would be realized by eliminating the state and federal costs of storage, further processing and distribution once states receive surplus commodities.

Overall, the thrust of this proposal is to simultaneously rationalize the agricultural price support and surplus commodity distribution programs using existing market structures while enhancing the availability of nutritious food to tens of millions (the current food stamp caseload is about 21 million persons) of needy Americans.

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* The Thrifty Food Plan should be replaced with the Low Cost Food Plan which would enhance benefits by about 25%. Any savings from the implementation of the Surplus Commodity Supplemental Food Stamp Program should be transfered to the basic Food Stamp Program.

HUNGER IN THE MIDST OF PLENTY IN MONTGOMERY COUNTY

OVER 20,000 SEEK EMERGENCY FOOD IN 1983

Montgomery County may boast of being the richest Congressional District in the Nation with a medium income of $33,711 in 1980. Yet nearly 25,000 were living in poverty with income at or below $7,412 for a four person family. (See Table I). In 1983, it is not surprising that more than 20,000 people were in desperate need of food and appealed to emergency food closets and churches for help. (See Table II) The large majority of these needy people were referred from Social Services or other County Agencies. Most food closets give food for one to three days. These food closets were set up for a one time emergency but many needed to return in order to survive.

TABLE II

NUMBER OF PERSONS RECEIVING EMERGENCY FOOD IN MONTGOMERY COUNTY

Group/Agency	1980	1981	1982		1983 Annualized (1)
Grant Assistance Program/ Community Ministeries	433	581	1,197		1,495
St. Elizabeth's	125	150	150		200
Rockville FISH	NA	NA	1,900		1,702
PROP	420	660	720		1.020
Manna Bag to Families	-	-	-		220
Community Resources of Rockville	2,382	2,805	2,172		4,176
Silver Spring HELP	1,298	1,356	1,943	(2)	1,869
Bethesda HELP	168	324	456		575
Wheaton HELP	786	803	1,041		1,174
S.S. Presbyterian Church	208	208	250		208
St. John The Baptist "		132	264	(3)	258
Seventh Day Adventist Com. Serv. Center and Spencerville	1,030	1,001	1,001	(4)	1,114
St. Catherine's Church	240	240	575		257
Damascus HELP	67	104	121		153
Gaithersburg HELP	NA	576	786		900
Olney FISH	NA	300	420		420+
WUMCO HELP	451	525	1,072		948
St. Martins -Gaith.	100	100	105	(5)	101
Christain Life Center	-	-	-		1,820
St. Vincent DePaul Society	-	-	-		745
St. Patrick	-	-	65		135
St. Peter's	170	170	170		170
TESS		500	750		1,020
Dep't. of Social Services	NA	129	201		438
TOTAL	7,878	10,664	15,359		21,118

(1) These figures are very conservatively estimated./ Most organizations contacted expected a large increase in December.
(2) Week end or evening requests are not included.
(3) More than twice the amount of money was spent on food in 11 months of '83 than '82.
(4) This center was closed for 2 months.
(5) More than 75 people were turned away because of limited resources.

Note: Many churches and organizations give food assistance to individuals and families throughout the year. Social Services and Housing Opportunities Commission gave out 700 turkey baskets and St. Martins gave out 150 at Thanksgiving. A large number of christmas baskets will be given through agencies, organizations and churches that are not reflected in our data.

In almost all cases where data are available requests for emergency food have greatly increased since 1980.

Who needs food? The consensus among organizations surveyed is that mothers with young children are hardest hit. If they receive assistance it does not cover their needs for a month. The maximum amount of Aid to Families with Dependent Children for a family of four in Maryland is $350.00 a month, plus $195 worth of food stamps, if they are in the food stamp program. If they are working their take home pay is inadequate for rent, utilities, child care, food and clothing. If they move in with friends or family, they will lose their A.F.D.C. and food stamp benefits if the total household income is more than 150 percent of the poverty level. (See table I). This may explain why mothers with babies are found living in cars. Not only are these highly vulnerable persons hungry, but their vital social support system is being destroyed by the new A.F.D.C. and food stamp regulations.

The mentally ill who have lost their jobs and the deinstitutionalized are frequently found in the streets hungry and cold. They are often referred to voluntary groups for assistance. Hundreds are on the waiting lists for group homes and other services.

Contrary to the suggestion of Mr. Edwin Mease, White House Counselor, emergency food center volunteers and other workers repeatedly reported that people come for help only when they have exhausted their personal resources. In some cases they sold all their furniture and their cupboards are truly empty. They come toward the end of the month when all their benefits are depleted.

The new food stamp regulations have complicated procedures for both the clients and the agencies resulting in weeks and weeks of delays. Emergency food stamps take up to 5 days for issuance after the application is made under the regulations. Yet the clients need for nourishment is immediate. Nonemergency food stamps may be issued within 30 days after applying. The process frequently takes even longer. In addition to lengthy delays in processing application, requirements for eligibility are very restrictive, social security numbers are required for each child. Income is based on earnings two months prior, regardless of current need, liquid assets can not exceed $1500. If the family car is valued at more than $4,500, any amount over $4,500 is counted in the $1500 asset limit. These are but a few of the new punitive measures visited upon the poor. It is not surprising that participation in food stamps has dropped about 13 percent in the past few months.

Mr. Meese indicated that the poor did not use the food program available for them. In Montgomery County about 50 percent of the applicants are denied food stamps. According to a supervisor, "these are people who perceive themselves to be in need".

The Women, Infants and Children Supplemental Feeding Program participation has increased by 15 percent in the past year to about 4,800 in October 1983. Yet, only about one third of those potentially eligible are participating in the program. This may be the result of lowering eligibility scales to 175% from 195% of the poverty line in 1982. Major computer errors created tremendous disruptions in the delivery system and mismanagement at the state level seriously jeopardized the crediability and continuity of the program. Needy clients put on waiting list were outraged when millions of unused federal dollars were repeatedly returned to the United States Department of Agriculture. Fewer children are now eligible for free or reduced price meals because the eligibility scales were lowered as in W.I.C.

Social Security and verification procedures are now required. This discourages families from applying and also delays processing.

The eligibility scale for W.I.C. and school meals was reduced to 175% of the poverty line from 195% in 1982. (See Table III) This reduced the numbers potentially eligible for the programs.

Fewer children are being fed at school. In addition to lowering of eligibility federal subsidies were reduced, therefore, meal prices were increased from 5¢ to 30¢ for breakfast and from 20¢ to 40¢ for lunch. The social security numbers are required thus delaying applicants approval. All these factors contributed to a decline of 8 percent in lunches, and 17 percent in breakfast since 1980. One half of the schools do not serve breakfast.

Related Hunger Developments in Montgomery County

For the first time in recent history or perhaps ever Montgomery County has opened soup kitchens, a food center and shelters for homeless.

° In may 1983 The Manna Food Center opened. Food is distributed to groups and organizations working with needy people, and certain nonprofit organizations such as group homes, and child care centers. 75,000 pounds of food were distributed from May through November. The County provided rent free space and a block grant of $23,500.

° Three soup kitchens are opened/or opening in Silver Spring - Dec. 5, Bethesda - November and Gaithersburg - February '84.

° Several shelters for homeless have opened or expanded recently.
Rainbow in fall of 1982
Stepping Stone Shelter doubled its shelter capacity.
Greentree opened in Spring 1983.
Rockville Shelter for Women opened in 1982.

Some examples of Hungry Persons in Montgomery County

° Over and over again persons delivering food to the needy report that the vast majority have no food. No resources, in some cases no heat or furniture. They are desperate. They are young families, many have been abandoned by the father. Some have fainted from hunger in their search for food. Some are elderly. Most are women with small children.

° A few days ago a young woman phoned HELP for food. She was living in a car with a 7 month old child.

° A local church was contacted to help a young woman with a newborn baby living in a car. Both were frost bitten, hungry, and had no place to go. The baby was near death. Both were hospitalized.

° A pregnant woman walked miles with a very young child to apply for W.I.C. She had no food. The W.I.C. aid, realizing the serious danger of hunger during pregnancy, was able to get food for her and her child at Manna Food Center. Processing of W.I.C. and Food Stamp applications take a week to over a month.

° When times are hard families double up or move in with friends. Many are unable to get assistance because the income of everyone in the household is counted. An income over 150% of the poverty line disqualifies them. Families and friends are forced to turn away their children and friends because they all can not survive on their marginal earnings.

- Community Service workers report that children come in crying from hunger. The W.I.C. staff have to buy food and feed them before they are able to conduct interviews.

- Community Service supervisor with 20 years experience reported that a mother requested food. The supervisor was about to turn her away, when she screamed that her children were hungry and she had to feed them. The pain in the woman's voice affected the supervisor so deeply she said, "I can't get that woman out of my mind, instead of buying Christmas gifts for my children I feel I should give that money to feed the hungry." The woman phoned later and apologized, she said she screamed because she was so worried about her hungry children.

The recent federal regulations for the Food Stamp Program, W.I.C., and School Meals are severely hurting young children, mothers, the mainstreamed mentally ill from institutions and those already in the community, and the old on Social Security income. The food assistance benefits are grossly inadequate. In Montgomery County more than 20,000 needy persons sought emergency food. Their health and social well being are in jeopardy. Food closets and soup kitchens help in times of emergency, but the problems are ongoing. One to three days of groceries begged from a food closet is not the way to feed hungry babies, pregnant women, young children, when their W.I.C. food runs out, nor is it the way to feed the mentally ill when they have the magic to stretch their meager food stamp allotment to cover food for a month. These highly vulnerable persons are frequently hungry, socially disoriented and filled with despair. Without hope people cannot survive. A society is judged by the way it cares for the weak. Even during the industrial revolution there was an understanding that poorest of the poor should not go hungry. In a decent society people should have the right to adequate, accessible and available food. A strong, concerned and social caring government takes care of vulnerable people with dignity, empathy and equity. Restoring the integrity to the food assistance programs is essential for protecting the needy.

TABLE I

POVERTY PROFILE FOR MONTGOMERY COUNTY, MARYLAND

1980 Census	Numbers	%	Income
Montgomery County Total Population	572,935	100	$33,711 (Medium)
Poverty Line	24,882	4.3	$7,412
125% Poverty Line	34,111	6.0	$9,265
150% Poverty Line	44,118	7.7	$11,118
200% Poverty Line	67,609	11.8	$14,824
BLS Lower Budget Level	-	-	$15,392

UNEMPLOYMENT RATES

	Montgomery County	Maryland	National
1980	3.0	6.5	7.1
1981	3.4	7.3	7.6
1982	3.9	8.4	9.7
1983 (10 month average)	3.5	7.1	9.6

*The BLS Lower Intermediate and High Budget Levels are no longer published. The last Lower Budget was published for fall of 1981. BLS lower budget level was designed as a "realistic benchmark" of need to provide for maintenance of physical health and social well being, the nurture of children, and participation in community activities.

TABLE III

Persons Participating In Food Assistance Programs Montgomery County, Md. FY '80-83

Program	FY '80-81	FY '81-82	FY '82-83	October 1983
Food Stamps				
PA	8,587	7,348	7,137	6,423
NPA	3,886	6,358	6,492	6,248
TOTAL	12,472	13,706	13,633	12,671
% change from 1981-1983 is - 13%				
W.I.C.				
Monthly Average	3,308	2,902	3,886	4,785
% change from 1982-1983 is + 15%				

School Meals	Average Daily Participation	Free and Reduced prices
Breakfast	5,119	4,099	4,276
Lunch	9,184	8,105	8,466

% change from 1980-1983 is = 17% in School Breakfast and -16.5% in School Lunch is -8%

RECOMMENDATIONS

Federal

1. The integrity of the food assistance program must be restored at the federal level. People are in need at below 200 percent of the poverty line. Restore eligibility scale to 195% of the poverty line for all food assistance programs.

2. The allotment for food stamps is based on the Thrifty Food Plan. Nutritionist report that this plan is not nutritionally adequate, is difficult to follow, and has little respect for individual food preferences. The Low Cost Food Plan was used by Public Assistance Agencies for food allotments for needy families up until 1964. Economist at the Bureau of Labor Statistics use the Low Cost Food Plan for the Lower Budget Level - as a standard of need. Food Stamp allotments based on the Low Cost Food Plan would allow for the purchase of an adequate diet.

3. Recent changes such as household determination and assets limits should be repealed.

State

1. The Women, Infants and Children Supplemental Feeding Programs main problems have been with the computer company and the State Administration.

   a) Careful contract monitoring of the computer company along with sanctions for serious errors are needed.

   b) The practice of instituting unnecessary waiting list should be stopped when millions are returned to U.S.D.A. repeatedly.

   c) Outreach should be ongoing and intensive, not just once in every few years.

2. The Welfare Grant is grossly inadequate. An A.F.D.C. mother with three children currently receives a maximum of $408.90. She is entitled to food assistance.

County

Both the Montgomery County Government and the private sectors have worked hard to feed the needy.

   a) The Manna Food Center has helped stock food closets county-wide, and provided food for agencies serving the needy.

   b) There was tremendous cooperation among agencies and the private sector for promoting W.I.C.

1. Set up a monitoring system for documenting hunger and developing an action plan to eliminate or reduce hunger.

2. Set up a food hot line for information, referral, and follow up for emergency food and the food assistance programs.

3. Coordinate and expand outreach of all food assistance programs.

4. Strengthen the referral system to food assistance programs in County agencies and food closets.

For further information contact Mary T. Goodwin - 681-7338 or Suzanne Tarica - 652-6805

HUNGER IN MONTGOMERY COUNTY: UPDATE OF 1983 SURVEY

Methodology

The Food Network Survey was conducted in October 1983 and updated in October 1984. The initial survey was prepared in response to President Reagan's Hunger Task Force. The update was done to continue monitoring hunger in the County and present a status report to the County Government and Community on World Food Day

The public and private agencies providing emergency food to the needy were identified. Food Committee Chairpersons were contacted for data on the number of issuances of emergency food. All had data on the number of times emergency food was issued. About one third had data on the number of persons served. When the data on the number of persons served was not available, the number of households served was multiplied by 3.4 persons to give the number of individuals served. In the 1979 census data, the average household living below the poverty line was 3.4 persons in Montgomery County. (A number of survey respondents stated the households served were larger).

The amount of food issued varied from a supply for one to five days for a household. The majority gave enough food for three to five days.

The totals represent the number of times individuals received emergency food regardless of the number of days the supply would cover. In 1983, there were 22,895 times food was issued for individuals on an emergency basis. For the first six months in 1984 the number was 13,595. The figures represent only those recorded issuances of emergency food. Clergymen and others frequently give food vouchers or food money to needy people without recording it.

Historically the highest demand for emergency food is between September and the end of December. The number of issuances of emergency food is expected to reach 33,000 by the end of 1984 and a minimum of 1116 individuals will continue to receive food weekly, thus preventing emergency issuance for many.

Once a week PROP, H.O.C. and the Christian Life Center give out food to needy individuals and families. Many would need emergency food, if this service was not available. The number of individuals served weekly almost doubled from 1983 when 653 individuals received food weekly to 1116 in 1984. The food is largely perishable food from Manna Food Center.

The soup kitchen - Shepherd's Table opened in January 1984 serving 6,713 in six months. A second soup kitchen in Gaithersburg will open in early October. A pilot study conducted one evening at the Shepherd's Table September 25, 1984 indicated the following:

- 13 out of 24 ate only one meal a day
- 12 out of 24 were without food for more than three days in a row last month
- 17 lost weight in the last month without trying
- 19 stated they did not have enough money for food.

This pilot survey was done during the first shift at the Shepherd's Table. About 48 persons including two small children and a pregnant woman were served. Some were not able to fill out the form, others chose not to do so.

TABLE I

NUMBER OF TIMES WHEN INDIVIDUALS RECEIVED EMERGENCY FOOD IN MONTGOMERY COUNTY

Group/Agency	1980	1981	1982	1983	1-6'84
Community Action Agency	-	-	-	-	240
GAP/Community Ministries	433	581	1,197	1,495	1,041
St. Elizabeth's	125	150	150	200	228
Rockville FISH	NA	NA	1,900	1,702	733
PROP	420	660	720	1,020	486
Housing Opportunities Commission	-	-	-	-	374
Community Resources of Rockville	2,382	2,805	2,172	4,176	1,003
Silver Spring HELP	1,298	1,356	1,943	1,869	834
Bethesda HELP	168	324	456	575	314
Wheaton HELP	786	803	1,041	1,174	409
S.S. Presbyterian Church	208	208	250	208	204
St. John the Baptist Church	-	132	264	258	187
Seventh Day Adventist Community Service Centers	1,030	1,001	1,001	1,114	903
St. Catherine's Church	240	240	575	257	108
Damascus HELP	67	104	121	153	343
Gaithersburg HELP	2,217	2,273	3,002	3,609	2,162
Olney FISH	NA	300	420	420+	420
WUMCO HELP	451	525	1,072	1,130	261
St. Martin's Church, Gaithersburg	100	100	105	101	112
Christian Life Center	-	-	-	910	1,326
St. Vincent DePaul Society	-	-	-	745	204
St. Patrick	-	-	65	135	71
St. Peter's	170	170	170	170	80
TESS	-	500	750	1,020	275
Dep't. of Social Services	NA	129	201	438	571
First Baptist Church	-	-	-	-	540
Salvation Army	-	-	-	-	102
Chevy Chase Presbyterian Church	-	-	-	16	61
TOTAL =	10,095	12,361	17,575	22,895	13,592

Soup Kitchen	Meals Served
Shepherd's Table	6,713

Issuance of Food To Needy/Prevention of Emergencies

Group/Agency	Weekly/83		Weekly/84	
	Families	Individual	Families	Individual
PROP	110	374	211	717
Seniors		75		110
H.O.C.	50	170	70	238
Christian Life Center	10	34	15	51
TOTALS =	170	653	296	1,116

Manna Food Center*

	1983		1984	
	Boxes	Individual/4 days	Boxes	Individual/4 days
Manna Boxes(+77 for babies)	65	260	360	1,517

*These boxes were used for emergency food, many are counted above.

Food Hotline Calls

Emergency Food	5,198
Federal Commodity Prog.	130
Food/Nutrition Program	156
TOTAL =	5,454

10/12/84

Manna Food Center is supplied by Giant and Safeway supermarkets. Food that is safe but the shelf date has expired is brought to Manna for distribution to needy persons through the agencies and organizations listed and nonprofit institutions. In 1983 Manna distributed 88,800 pounds of food, and January to June 1984, 97,500 pounds.

The Food Hotline was set up to take calls for people in need of emergency food. 5,454 calls were received in a 6 month period, 5,198 were requests for emergency food.

Who Is On Public Assistance In Montgomery County?
June 1984

	Children	Adults	Total	Average Amt. per Receipt
A.F.D.C.	4533	2389	6,922	$108.17+ Co. Shelter Allot.
A.F.D.C.-UP	192	124	316	$ 96.13
G.P.A.*		912	912	$153.31
G.P.A.*-E.			445	$130.29
S.S.I.(Elderly)		3313	3313	$314-$349
Totals =	4725	6738	11918	

*General public assistance is usually given to adults who are physically or mentally disabled.

- Children, their parents, the old, and the disabled are those receiving assistance.
- The maximum a mother with two children receives on A.F.D.C. is $363/month in Montgomery County including $50 shelter payment. (Compared to the State payment of $313.00/month)
- The poverty line - 1983 - 3 person household - $7938
- A.F.D.C. - 3 person household - $4358
- A.F.D.C. - 3 person household + Food Stamps - $6830
- Average value of food stamp coupons per person $44.06(June 1984)

1983 National Poverty Line		Public Assistance/Year			
Household Size		Grant + $ Value	in Food Stamps		Total
1	$4,980	S.S.I $3768		$936	$4702
		G.P.A. $1836	+	$936	$2772
2.	6,720				
3.	8,460	A.F.D.C.$4358	+	$2472	$6830
4.	10,200				

About half of the public assistance recipients participate in the Food Stamp Program.

Federally Funded Food Assistance Programs

Food Stamps

Applications	June 1980	June 1984
Received	340	769
Issued	193	287
Not approved	123	363
Pending	24	119

- More than twice the number of households applied for Food Stamps in June 1984 compared to 1980.

- Over half of applicants in June 1984 were not approved, compared to over a third in 1980.

Individuals Participating In Food Stamp Program

	June 1980	June 1984
PA	7,971	6,300
NPA	3,484	6,029
TOTAl	11,455	12,329

1980 Census data indicated that 34,111 were at or below 125% of the poverty line in Montgomery County.

Food Stamp financial eligibility is 130% of poverty line.
About 36% of those financially eligible are participating in the Program.
Financial eligibility is only one criteria. Asset limit and household definition have become more restrictive in the last three years. At the top of the eligibility scale food stamp benefits are only $10 per household.

Women, Infants and Childrens Supplemental Feeding Program - W.I.C. Participation

	Monthly Average 1980		August 1984
	3,308		4,339 - Federal Funds
			638 - County Funds
		TOTAL =	5,077
Estimated Eligible	12,760		12,760
Percent Participating	26%		40%

National studies show W.I.C. has significantly reduced infant mortality and increased infant birth weight. For every $1 spent on W.I.C. $3 were saved in hospitalization cost for low birth weight babies. It is not known if W.I.C. was the reason for reduced infant mortality in Montgomery County.

Infant Mortality

	1980		1983
Montgomery County	12.8		9.6
Maryland	14.1		11.7
U.S.A.	12.5	(Provisional)	10.9

Free and Reduced Price School Meals Participation

	1980		May 1984
Breakfast	5,119	Free	4,724
		Reduced Price	225
TOTAL =	5,119		4,949
Lunch	9,184	Free	7,075
		Reduced Price	1,906
TOTAL =	9,184		8,981

Number of applications approved for Free and Reduced Meals in October 1983 - 11,984

- 11,918 persons received public assistance in June 1984, 6,300 public assistance recipients received food stamps.
- Only 12% of those eating at the food stamp allotment level had 100% of the Recommended Dietary Allowance, and 34% had 80% of the Recommended Dietary Allowance (U.S.D.A. Food Consumption Study 1978).
- The poverty line is a very inadequate yard stick of need according to authority (Rich Man Poor Man - Herman Miller).
- "Poverty: Economic disadvantage, especially among minority groups, is probably the most identifiable risk category (for nutritional problems)", Clinical Nutrition, S. Halpern, M.D.

Nutrition Programs For The Elderly in Montgomery County

Number of Persons Served	
1979	1984
2,521	5,650

Number of Households in Montgomery County Receiving Commodity Foods.

- Distribution started in March 1983 with an average of 3,000 households served per month.
- In April to August 1984 distribution occurred every 2 months with an average of 3,700 households served with more food items and larger quantities per distribution.

The data presented was the best available. Methods of reporting and as eligibility standards vary with each program. For example; income eligibility for Food Stamps and Reduced Price School Meals are 130% of the poverty line, while W.I.C. and Free School Meals are 185% of the poverty line. Public assistance data was taken largely from Department of Human Resources Income Maintenance Administration Statistical Report, June 1980 and June 1984. W.I.C. data was supplied by the W.I.C. staff. Poverty Data from The Bureau of Census, and the Maryland Center for Health Statistics.

We wish to gratefully acknowledge the support, cooperation, patience and commitment of the volunteer organizations and government agencies in providing data for this report.

MIG:amg
10/15/84

PREPARED STATEMENT OF DR. MICHAEL LIPSKY, PROFESSOR OF POLITICAL SCIENCE, MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Three days before Christmas, 1981, President Reagan announced he was releasing 30 million pounds of surplus cheese from federal warehouses in order to feed the hungry. Since that day, more than one billion pounds of cheese, 300 million pounds of butter, and 95 million pounds of non-fat dry milk have been removed from government stores for this purpose (data as of August, 1984).

This initiative has supplied important supplementary food assistance to far reaches of the nation to aid people who came forward to say they don't have enough to eat. Now known as the Temporary Emergency Food Assistance Program (TEFAP), it is the only federal assistance program explicitly geared to serve the hungry.

In a humane society there is little doubt that surplus foods should be made available to people in need of food assistance. In interviews in eight states, and in Washington, D.C. and elsewhere, concerning the operation of TEFAP and its predecessor policies,[1] my research assistants and I have encountered hardly anyone who does not believe the program should be continued so long as it does not detract from support for the much larger and infinitely more important food stamp program.

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1) This research is being conducted at M.I.T. with partial support from the William H. Donner Foundation of New York. It draws on interviews with national and regional officers of USDA, state officials, and directors of local food distribution organizations, as well as on documentary literature. These remarks and other relevant observations are elaborated in a preliminary report submitted to the Committee for its consideration.

However, throughout our survey we found significant problems with the administration and structure of the program as it moved from the status of a one-time "giveaway" to an ongoing activity of the U.S. Department of Agriculture (USDA).

The program is administered by USDA through the states, which enter into agreements with local agencies (typically food banks and Community Action Programs [CAPs]) to distribute surplus commodities to direct distribution sites (food pantries, soup kitchens, senior centers, and the like). In the spring of 1983, these organizations complained to Congress that they were forced to bear excessive out-of-pocket costs in serving as food conduits.

Problems experienced by local feeding organizations in paying the costs of distributing commodities for the federal government were not fully resolved by the resulting legislation P.L. 98-8 (the Jobs Bill).

* Feeding organizations have difficulty obtaining reimbursement for capital expenditures such as trucks and freezers because the program is still on the books as "temporary" (although with close to a billion pounds of cheese still in storage it does not appear we will run out soon).

* Rural foodbanks experience hardships because of very high transportation expenses and fewer local trucking and freezer operations from which they can solicit in-kind donations.

*Some local feeding organizations lack the capacity to grapple with the required paperwork and thus fail to seek reimbursement from the states.

As surpluses are likely to exist through the end of this decade, the Committee can address these problems by placing TEFAP on a more stable footing. This will enable state governments and local feeding agencies to plan with greater confidence.

It can recommend authorization of administrative expense monies for capital goods. Food banks distribute a wide range of foods solicited from the private sector in addition to federal commodities. Helping them to operate on a modern, sanitary and efficient basis is a worthy federal objective quite apart from how long the surplus commodity program lasts.

It can seek to require the states to honor special reimbursement claims of local organizations such as rural food banks with unusually high distribution costs.

It can follow the lead of the state of Washington by recommending that states offer technical assistance to food banks and other distribution organizations. Such aid would help insure that community agencies claim their share of administrative expenses, as well as take advantage of innovations in food distribution management.

Although the federal government has allocated $50 million per year to assist with the expenses of distributing commodities to households, in general less than half of this sum goes to local organizations. Moreover, these monies represent only a part of the average cost incurred by local feeding organizations in program administration.

Thus there is reason to assert that local churches and soup kitchens, and private donations, subsidize federal feeding efforts. The Committee can try to rectify this anomaly by recommending full funding of the cost of federal food distribution through local organizations. Such a measure would not negate the fact that administration of the program would still be extremely cheap because of the high degree of utilization of volunteer labor and donated goods, facilities and services.

Since every federal dollar retained by the states for program

administration means less aid for feeding groups, states are cross-pressured to minimize their own expenditures so that distribution sites can claim more. Better technical assistance from the state is thus purchased at the expense of the organizations in need of help. The Committee should take steps to end the invidious zero-sum game in which states and feeding organizations find themselves with respect to federal expense reimbursement.

TEFAP was founded on the notion that it would distribute surplus commodities through voluntary organizations whose place in the community and organizational structures would permit a minimum of regulations and bureaucratic involvement. Use of voluntary organizations also fits a currently fashionable interest in encouraging the private and voluntary sector to play a larger part in solving social problems.

Unfortunately, concerns that inappropriate people will receive free commodities is leading to destructive requirements that local community groups be held accountable for closely verifying claimants' eligibility.

This development is being resisted by many local groups that believe their altruistic and charitable charters will be fundamentally revoked if they are required to demand proof of eligibility from friends and neighbors, strangers and "regulars," who will now have to prove what they admit by their presence in the cheese line: that they are hungry, that they do not have enough food for their children.

Pressing these organizations to develop increasingly higher vigilance over recipient eligibility will turn some of these voluntary organizations into quasi-welfare agencies, undermining the very qualities for which they are rightly admired. It will also promote modest degrees of lawlessness, as organizations give lip-service to verification requirements while ignoring

them in practice. Some organizations will refuse to participate in a program which already causes them considerable distress as organizations.

I do not mean to suggest that it is wrong to scrutinize eligibility carefully, but tests of proportionality and reasonableness ought to be applied. It is one thing to be stringent when each month hundreds of public dollars are at stake, as in welfare and food stamp programs. It is another thing to expend scarce organizational resources to monitor eligibility exhaustively when items worth, say twelve dollars every three months, are at issue.

These problems could be circumvented if the federal government were content to accept the states' designation of local organizations as predominantly serving low-income people. Organizations could be audited or "spot-checked" to assure that they were open to all and served people in need. But close scrutiny of individual recipients would no longer be necessary.

In the brief period allotted to me I have tried to raise critical issues of program administration that have come to my attention over the course of my study of the surplus commodity distribution program. My views are elaborated in a longer report that I have submitted to the Committee. I would be happy to respond to any specific questions you may have.

Federal Surplus Commodity Distribution to Households and Individuals: A Preliminary Assessment

by

Michael Lipsky

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September 1984

This is a preliminary report on recent federal initiatives to respond to the problem of hunger by distributing surplus commodities to households and individuals. It has been prepared at the request of the Select Committee on Hunger of the U.S. House of Representatives to supplement my direct testimony delivered on September 20, 1984. The report is based upon research currently underway at the Massachusetts Institute of Technology.*

Observations and conclusions in this report draw upon field research in eight states, located in four regions of the U.S. Department of Agriculture (USDA). The states are Massachusetts, Connecticut, Rhode Island, Michigan, Illinois, Montana, California and Washington. In these states my research assistants and I have interviewed USDA regional officers, state officials responsible for administering emergency food programs, and people responsible for distributing USDA commodities through food banks and other community organizations to distribution sites, and to citizens directly through food pantries and soup kitchens. In addition, we have interviewed people familiar with the program, within and outside of government, in Washington, DC, and elsewhere, including administrators in eight other states, and have reviewed documentary materials bearing upon this program.

Our work has been supported in part by a grant from the William H. Donner Foundation of New York. We expect to have a final report by the end of the year.

I begin with a brief history of the program and related policy developments, and then discuss three sets of issues that the Committee may want to consider in its deliberations: 1) problems of program costs and reimbursement associated with distributing commodities; 2) problems encountered by emergency feeding organizations and their clients in administering the program; and 3) issues of equity.

Description of the Program

It is useful to view the effort to distribute commodities to households in three distinct phases.

1. December 1981-March 1983

In December, 1981, through an Executive Order, President Ronald Reagan ordered the release of 30 million pounds of cheese from government stocks. (2-1) Shortly after the President's announcement, the Food and Nutrition Service (FNS) notified states of several basic considerations that would govern the release of the cheese. States were to enter into a contract with the FNS for the receipt of the product. The contract specified that upon receipt, a state was responsible for arranging and distributing the product. (2-2)

States were to release the cheese to two types of entities: to traditional providers of congregate meals, and to food banks. A final determination of amounts allocated to states was made by the FNS on the basis of population, not need. No explicit eligibility criteria were imposed on the states, though the restriction of distribution to the two categories listed above appeared to reflect the government's intent to limit cheese to the needy.

At this point all parties involved (the Administration, the USDA, the states and emergency distribution agencies) regarded the effort as a one-time experimental release. However, a confluence of factors, including substantial government surpluses, increasing public expressions of concern over the existence of hunger, and the popularity of the giveaway initiative, led to the continuation of the distribution effort. Thus, during 1982, the USDA authorized the release of an additional 500 million pounds of cheese and 125 million pounds of butter. (2-3)

During this period, the program was characterized by a concerted effort to get states to order as much food as they could effectively move into the hands of people so long as waste did not occur. It was up to the states to establish standards for who was needy and for the frequency of distribution.

2. March 1983-September 1983

The first months of 1983 were marked by diverse expressions of public concern about hunger, considerable media attention, and marked interest in Congress. Testimony on the hunger issue before Congress in February and March of that year evoked a parade of witnesses who testified to the severity of the problem and also to the difficulties that the community agencies were experiencing in implementing the federal cheese giveaway. (2-4)

In March of 1983, the Temporary Emergency Food Assistance Act (TEFAP), which constituted Title II of the "Jobs Bill" (P.L. 98-8) was passed and signed into law. (2-5)

Two sections of TEFAP are particularly noteworthy. First, Section 202(a) expanded the list of commodities that were to be made available to emergency feeding organizations.

Second, Section 204(a) introduced a number of changes. Fifty million dollars were appropriated and made available to the states to offset their storage and distribution costs. Of this amount, a minimum of $10 million was to be used to reimburse emergency feeding organizations for their actual costs associated with distribution, although in no case could an agency receive more than 5 percent of the value of commodities they handed out. (3-1) Moreover, the list of eligible providers of food to the needy and unemployed was expanded. The program was to terminate on September 30, 1983.

The FNS issued regulations with respect to this legislation on April 26, which, among other things, provided for distribution on a formula basis. (3-2) First, in line with Congress' intent to serve the unemployed and/or new poor, the allocation of commodities would be based on a state's historical usage of USDA commodities, its unemployment level and the percentage of its population that fell below the poverty line. Second, allocations of funds to the states were based on a proportional formula that gave greatest weight (60 percent) to the number of households with incomes below the poverty level and the rest to the number of unemployed persons.

The period March-April 1983 also witnessed changes in the supply of commodities available to the states. Consonant with Congress' directive, the Secretary announced that a variety of commodities, not previously authorized for release, would be made available. During the five-month life of P.L. 98-8 more than 78 million pounds of cornmeal, rice, non-fat dry milk, honey and flour, with a value exceeding $40 million, was distributed. (3-3) In addition, $75 million worth of beef, poultry, fish, fruits and vegetables were distributed to emergency feeding organizations for congregate feeding operations under Title I of the Jobs Bill. (3-4)

At the same time, however, restrictions were placed on the processed cheese supply due in part to the fear of displacement in the commercial markets and the USDA's belief that industry processing capacity was limited. (3-5) Between March and May of 1983, an average of 57 million pounds of processed cheese was distributed per month, but in the next quarter that average fell to 32 million pounds. This development ended the era of unrestricted supply of still abundant cheese.

3. October 1983-Present

On September 2, 1983, effective October 1, 1983, Congress extended TEFAP through September, 1985. (3-6) In so doing, Congress attempted to mollify the objections levied against the program by commercial interests concerned over displaced sales. In a departure from prior practice, Congress formally mandated that states determine whether recipients of food were, in fact, needy by virtue of low income, thus restricting eligibility. Though states were to set eligibility guidelines, the burden of assessing eligibility fell on the final providers of the surplus product, that is, the community organizations. (3-7)

Related to the effort to target commodities more specifically, the Secretary of Agriculture was invested with authority to make final supply-release determinations in light of market conditions. He could curtail shipments to an eligible agency if it appeared that the agency was diminishing its normal expenditures for food, whether or not they were federal commodities. He was also required to take steps to ensure that the release of free commodities did not precipitate a decline in private sector sales. (4-1) Finally, the Secretary was to withhold the release of commodities if displacement occurred. (4-2)

Apart from these provisions aimed at rationalizing the supply-release process, P.L. 98-82 diminished the resources available to both the states and the emergency food organizations by limiting the level of authorization for expense reimbursement funds. The March 1983 Jobs Bill had allowed $50 million to cover costs incurred in the period through September 30, 1983. For 1984 and 1985, however, the same amount was appropriated for each year despite the fact that the periods were longer, distribution sites were increasing, and distributors were required to perform the additional task of determining individual eligibility.

In December 1983, the FNS released new regulations to guide the direction of P.L. 98-92. (4-3) States were required to set up income-based eligibility criteria for individual recipients based upon a plan that was to be approved by the FNS. States also had to establish distribution rates based on household size and monitor the ability of community organizations to receive and store commodities. Finally, states had to ensure that community organizations not diminish their traditional food purchases as a result of receiving free commodities.

Reimbursement Concerns

The early complaint of emergency feeding organizations was that they were expected to carry out responsibilities for surplus commodity distribution without compensation for associated costs. Participating organizations had to pay for trucking and fuel, additional rent, cold and dry storage, utility costs, wages to pay for unloading and handling when volunteers were unavailable, and the considerable time administrators with other duties had to devote to the program.

The costs were not insubstantial. For example, the Community Action Program (CAP) in Lansing, Michigan paid out over $100,000 in unreimbursed expenses in its first two years of participation in the program. During 1982, the total cost (including in-kind contributions) for the Pontiac, Michigan CAP averaged 28 cents per pound of commodity distributed or approximately 21 percent of the product's value. As a whole, Michigan CAPs expended over $1 million in unrecoverable costs during 1984.

Some food banks had already acquired the facilities and developed the administrative capacity to absorb the additional burdens. But many more were shoestring operations. Some organizations, such as CAPs, had little, if any, bulk food handling capacity or experience.

The dilemma faced by community organizations was whether they should absorb administrative and out-of-pocket costs associated with distributing free commodities. On the one hand, their mission was to get as much food as possible to the people who needed it. From this point of view there was no question that they welcomed the availability of cheese. To food banks it was a valued, high protein item to round out the products that they received from other sources. To the CAPs, it was a visible program that dramatically asserted their value as conduits to the poor.

On the other hand, not only did community organizations find the distributions costly but they were expected to absorb costs of monthly or quarterly distributions on top of their other activities. Since they often felt stretched to their limit by other tasks and responsibilities, devoting energies to the cheese distribution program required a commitment that they often felt was not commensurate with the benefits that were to be gained either by their organizations or, more importantly, by their clients.

For these and other reasons, organizations originally associated with USDA commodity distribution have stopped participating in the program, including the Maryland Food Bank, Boston Community Schools, San Francisco Food Bank, and others. In Illinois, where subdistributors receive no money for their efforts, only 75 percent of the original participating groups still distribute commodities, although alternative distributors have been found. (5-1) In New Jersey, state directors there indicate that the "bureaucratization" of the program has resulted in the loss of many local group distributors. (5-2)

Some organizations believe they have paid a heavy price for continuing in the program because the high costs of commodity distribution have meant that they have had to eliminate other program activities. It has not been uncommon for CAPs in particular to continue free food distribution at the expense of long-standing commitments to public outreach and self-help activities.

In Michigan, for example, TEFAP and other food relief efforts have displaced other CAP programs, according to CAP directors. The CAP agency in Clare, Michigan stopped planned program activities for 18 to 20 months after beginning to distribute commodities. These efforts included nutrition education, food stamp budgeting classes, food co-op organizing and general outreach through a community gardening program. (5-3)

In Lansing, Michigan, CAP outreach was curtailed so that more than 25 percent of its fuel assistance funds went unspent last year despite a locally severe winter. In addition, it has eliminated four administrative positions to cover TEFAP losses, and CAP officials expect to eliminate four of their ten outreach positions because of a lack of reimbursement. (5-4)

In Wayne County, Michigan, the CAP agency has been forced to drop a summer gardening program that operated on 14 acres of donated land. The effort had produced 60 tons of fresh vegetables, given employment opportunities to inner-city teenagers and provided seed and fertilizer to individual households as well. This CAP also dropped its nutrition education classes.

Notwithstanding these concerns, most emergency feeding organizations accepted the invitation to participate in the program because their mission called upon them to do the very things they were being asked to do by government. In addition, CAPs welcomed the opportunity to play a central role in providing a vital service at a time when their roles were being questioned.

When Congress took up the hunger issue in the Jobs Bill, it provided for potential reimbursement for certain immediate expenses directly attributable to distributing surplus commodities. Yet issues of reimbursement were not put to rest.

Capital expenditures were often not accepted as reimbursable expenses. The Jobs Bill, in the view of many FNS regional administrators, permitted reimbursement for certain expenses while prohibiting it for capital items. Overwhelmingly, the complaints of community feeding organizations concerning Jobs Bill reimbursement focused on the difficulty of making significant capital improvements to increase their capacity. Most groups were told they would not be reimbursed for the cooler or truck, or new quarters, to permit more efficient and proper food handling.

Thus the San Francisco Food Bank (SFFB) continued to take possession of federal cheese on the street rather than carry heavy cases up three flights of stairs to its donated quarters. They were required to get the cheese to local distribution sites the day it came in rather than guard it on the street. (6-1) The Mendocino (CA) Food Bank has operated at the suffrance of local fish houses and beer distributors that have donated cooler space, but only when their own business needs permit. Throughout the country food banks and other distribution agencies were frustrated by the fact that their early, cramped and inadequate quarters could not adequately accommodate the volume of federal commodities for which they were increasingly taking responsibility.

When, in September, 1983, legislation was passed extending the TEFAP feeding provision for two additional years, most USDA regions began to permit investment in capital equipment so long as the expenditure was proportionate to a program with a two-year duration. While federal policy differed from region to region in this respect, it became possible to become more lenient on expenditures in order to allow the food banks to purchase trucks, obtain coolers and otherwise modernize their operations. However, problems continue to exist concerning what kinds of expenditures are appropriate for a program whose statutory life may be only two years, but also may be much longer. Moreover, the level of Congressional funding did not reflect an intention to upgrade the quality of service delivery.

Reimbursement of expenses has been inadequate and unpredictable, creating hardships for community feeding organizations. The original decision to distribute surplus commodities to households and individuals through food banks and other community organizations meant that the federal government sought to minimize expenses associated with program implementation by utilizing existing organizational capacity in communities. Provisions of the Jobs Bill, however, indicate that the Congress did not want to exploit these organizations if their expenses for commodity distribution were too burdensome.

In the Jobs Bill, up to 5 percent of the gross value of commodities distributed could be allocated to emergency feeding organizations for expense purposes. And at least 20 percent of the states' allocation for expense monies had to go to emergency feeding organizations. The way the Bill read, some feeding organization officials thought they would be entitled to reimbursement up to 5 percent of the value of the food they distributed. In at least some cases, food banks began to distribute federal commodities in part because the government's promise of 5 percent reimbursement represented a significant infusion of cash to organizations that had few alternative cash sources.

During the summer of 1983, the fact that the amount of money allocated for food bank expenses nationally was less than 5 percent of the value of the food was not as substantial a problem as it was later because the allocation was made for expenses to be incurred only over a much shorter period, that is, between the passage of the Jobs Bill and the end of the fiscal year in September.

During the "Jobs Bill" era, $533 million worth of food was distributed. The $50 million in reimbursement funding represented 9.4 percent of the value of commodities distributed. Assuming a state adhered strictly to the 20 percent minimum allocation, local groups would receive less than 2 percent of the commodities' value. Only if the state gave more than half of its allocation to feeding organizations would the latter receive 5 percent of value. Many states did pass on more than the minimum: Illinois, 46 percent for FY 83 and FY 84; Michigan, 60 percent for FY 83 and FY 84; California, 60 percent for FY 84; Minnesota, 33 percent in allocation (in the most recent year).

When TEFAP was extended in September, 1983, authorized funding was pegged at $50 million for each of FY 83 and FY 84, as mentioned. These funding levels were approved at a time when the level of voluntary labor and donated equipment and/or storage provided to local groups was diminishing due to the length of the "temporary" program and the increasing federal role. (7-1)

For fiscal year 1984, approximately $830 million worth of commodities will be distributed to states. (7-2) Fifty million dollars for distribution costs represents approximately 6 percent of the value of commodities. Thus states must allocate more than 80 percent of their funding allocations to local groups if the latter are to receive 5 percent of the value of commodities received. (7-3)

This is not being done. For the coming year, Michigan CAPs will receive only 1.3 percent of commodity value. In Illinois "wholesale" distributors receive but $.01 per pound or approximately .7 percent of value. The 1700 sub-distributors receive nothing. Other examples of states and the percent of value they give community groups are: Wisconsin, 3 percent, Indiana, 1.75 percent; Virginia, less than 3 percent.

State costs are also increasing as a result of P.L. 98-92 because federally mandated accountability standards, tightened program controls and heightened monitoring of local feeding organizations require state

agencies to add staff and equipment in order to keep pace with the institutionalization of the program. Additionally, costs for warehousing and freight are relatively fixed, reducing a state's ability to pass along any costs savings generated by their experience with the program or the introduction of more efficient management systems which may have high initial costs.

The voluntary sector subsidizes federal hunger relief. Surplus cheese and other commodities were originally released to supplement local hunger relief. This is evident in the federal government's concern to minimize the creation of new bureaucratic structures to distribute surpluses to households, and in the opposition of the Reagan administration to additional administrative expenditures.

It is not so obvious that the President or Congress intended local churches and charities to pay for federal feeding efforts. Yet the conclusion that local charity does subsidize commodity distribution to households is clear if one examines the funding base of most food banks. Most food banks support themselves by "charging" client organizations a small fee called a shared contribution for the food they take, typically eight to twelve cents per pound. This reflects the costs of running the food bank, minus any cash contributions the bank may have raised, divided by the volume of food expected to move through the food bank during the year. Importantly, food banks by law are not permitted to charge for the federal commodities they distribute. (8-1)

A simple division of the volume of USDA commodities food banks process by the federal reimbursement they receive reveals that they are reimbursed at a rate of only one to three cents per pound of food. Since this amount does not approximate the average cost of operations, a picture emerges of local food pantries and soup kitchens subsidizing federal commodity distribution through their own local fund-raising efforts. For example, the Greater Chicago Food Depository, which services 600 groups in Cook County, receives one cent per pound of cheese and butter they distribute although their cost of handling a pound of product is four cents. (8-2)

Federal reimbursement will not be adequate until reimbursement formulas are based upon a better estimate of real costs to states and local feeding groups, funds are made available on the basis of food actually distributed, state allocations are uncoupled from funds for community organizations, and community groups are able to claim all appropriate reimbursements.

Reimbursement depends upon community organization capacity. Many of the state agencies that administer commodity distribution were designated to perform that function because they normally provided USDA commodities to schools and established nonprofit institutions, and thus had familiarity with the USDA and its procedures. These agencies typically were unfamiliar with CAPs and other community organizations. It is not surprising that these agencies have often failed to adapt their procedures to the needs of community groups, though their contractual obligation to the federal government increases the level of accountability they must demand of the distributors.

Some states have found their expense allocations adequate only because community feeding organizations are unable to negotiate the process of claiming reimbursements. Many food banks and food distribution organizations may find it difficult to negotiate the often obscure, cumbersome reimbursement procedures that states find perfectly normal to impose. It is an interesting point whether the equitable reimbursement to local organizations should be contingent upon whether they possess the administrative capacity and philosophical predisposition to make claims or whether private funding is sufficient to sustain local efforts.

The significance of this question is highlighted by the efforts of Washington state to assist distribution agencies in preparing their reimbursement forms. In Washington, the state provides encouragement and technical assistance to local feeding organizations to prepare claims for appropriate expenses. Each of seven regions in the state is served by a circuit-riding slate of employees charged with helping local operations run more smoothly. Thus the state helps to minimize the differences between food banks that result from differences in administrative capacity or inclination toward accepting public funds.

The rural sector is disadvantaged by expense allocation practices. In the game of trying to displace program expenses onto any agency other than one's own, rural food distribution programs are at a disadvantage because of the federal government's policy of paying transportation costs of full shipments from federal warehouses to any site in the state. This practice encourages states to allocate commodities so that as much as possible only full shipments are sent to food banks. If a particular area is scheduled to receive less than a full truckload, distribution to that area is typically held up until a full shipment can be scheduled. If any area is so small as to call for less than a full shipment, as are some rural places, and if delivery cannot be postponed, the state has to receive the federal truck at its own warehouse. The state then has to pay for partial shipment deliveries to the rural communities.

Of greater concern is the fact that rural food distribution may cost more than urban distribution. In-kind contributions of storage and trucking may simply be less available, and shipping distances are much greater. In Montana, it is not unusual for a CAP to be designated a service area that is 100 miles in radius. If federal reimbursement is less than the actual costs incurred, rural food banks with higher operating expenses will be at a disadvantage unless account is taken of their often greater need.

Problems of Emergency Feeding Organizations and Their Clients

When the cheese giveaway program first started, regional officials of the USDA made great efforts to get states to order as much cheese as possible. The message went out that so long as no wastage occurred, there were no limits on states' orders. Deliberate efforts by state and federal officials to increase the utilization of surplus cheese, combined

with growing public awareness of the program, resulted in a cascading series of state orders culminating in the distribution of nearly 60 million pounds of cheese in May, 1983.

In this month the USDA decided to cut back cheese distribution in response to objections raised by cheese distributors and retailers. The commodity distribution network experienced an abrupt change in product availability as a result. Most hurt by this change in program direction were the states that had been most able to generate a capacity to distribute cheese quickly. The allocation formula rewarded, not energy and zeal, but simply a state's place in the order of states with high levels of unemployment and poverty. Likewise, food banks that had been particularly quick to utilize the availability of commodities discovered that their allocations were reduced as other food banks came on line and/or as states made additional efforts to make the product available to citizens throughout their territories.

When the USDA decided to cut back national cheese allocations to roughly 35 to 40 million pounds per month, the agency was suddenly faced with an allocation problem. Whereas in the past states could order as much as they could use, they now were restricted to a monthly allocation. (10-1) The Jobs Bill required distribution according to a needs standard. This created turmoil in some states, such as Florida, that had made the status of "elderly" sufficient to receive commodities. Elsewhere, the status of "unemployed" made one categorically eligible for federal commodities. The Jobs Bill also required states to consider eliminating previously eligible people because their incomes were marginally too high.

The Department of Agriculture urged states to adopt a relatively low standard of income eligibility (e.g., 130 percent of the poverty line) in order to provide as much as possible to those with the lowest income levels. Adoption of a low standard would also mean that the states would be able to meet a higher proportion of need with its monthly allocation. Twenty-five states adopted such a standard or a slightly lower one. (10-2)

Imposition of a need standard was intended to limit participation to those most in need. But does the program meet the need? The answer is clearly either no, or it is impossible to tell, for several reasons. First, if need is defined by a state's arbitrary identification of an income standard, then any answer utilizing such a standard is simply true or false by definition. It is evident that simply because a state defines a higher income level as needy does not mean it is doing a poorer job if it has to spread its commodity allocations over a larger pool.

Moreover, I would question whether in this program directed toward hunger relief it is appropriate to focus on income as the sole indicator of need. Commodity distribution is not an "incomes" program, like food stamps, nor a "nutrition supplement" program, like the Women's, Infants and Children's (WIC) program. Commodity distribution to households started, according to public pronouncements, as a "hunger" program. Many people with barely adequate incomes may be hungry, while some with inadequate

incomes may not be hungry, just as adequate income is no guarantee of nutritional adequacy, and poverty does not mean people are eating poorly. There may be good reasons to provide federal commodities simply to people who declare themselves to be hungry.

This is the standard applied by most food banks and food pantries that started up in response to the apparent increase in hunger in this country. Applying such a standard may mean some slight mistargeting of aid, but it is more than compensated for by the low administrative costs associated with holding to such a standard. In addition, emergency feeding organizations realize benefits in volunteer manpower and financial contributions that come forward in response to the urgency of the need.

Federal efforts to compel these organizations to carefully verify the eligibility of commodity recipients are inappropriate and likely to be self-defeating. They are inappropriate because food banks, food pantries and the like are not welfare agencies that may properly be charged with demanding proof of eligibility. Rather, they are often community institutions where neighbors, rich and poor, assist other neighbors in need.

Moreover, while it is legitimate to demand proof of eligibility where each month hundreds of dollars of public expenditures are involved (as in Aid to Families with Dependent Children, or Food Stamps), it is not so clear that demands for proof of eligibility are appropriate where, say, items worth twelve dollars every three months are at issue. At the very least, procedures for verifying eligibility ought to be subject to a test of proportionality. This is particularly the case when emphasis on income eligibility may minimize the participation of some people, such as those without fixed addresses or those suffering from mental problems, who are among the affected population.

Not only is the value of the goods at stake rather limited, but the cost of verification to community groups is substantial. Organizations applying new verification requirements were, in the words of several program directors, "stretched to the limit," "exhausted," or "burned-out." One example helps to illustrate the onerous burden placed on these groups as a result of the verification requirement. The CAP agency in Clare, Michigan certifies its 33,000 recipients twice a year. According to the program director, each certification takes ten minutes and costs 27 cents per person, or 1,100 hours per year and $18,000. The Clare CAP is but one of 32 CAPs that operate the program in Michigan.

Federal demands for eligibility verification may be self-defeating because local organization personnel either will refuse to demand proof of eligibility or will stop serving as volunteers because they do not want to participate in such a system. Emphasis on income verification may also be expected to encourage lawlessness, as food distribution personnel give lip service to the requirements while flouting them in practice.

Tightening administrative procedures may be harmful to local organizations. This may be the case because tighter control may come at the expense of the charitable and generous impulses that animated them in the first place. It would be a great irony if the household commodity distribution program succeeded in transforming exemplary voluntary organizations into quasi-welfare bureaucracies, less well able to generate volunteer assistance and less well able to attract the needy in their communities.

Local feeding organizations, not individuals, should be the target of eligibility determination. Many of the problems the federal government is causing local feeding organizations might be alleviated if the government were content to accept the states' designation that emergency feeding organizations indeed serve low-income people. Organizations could be audited or "spot-checked" to hold them accountable as agencies that were open to all and served people in need. Close scrutiny of individual recipients would be unnecessary. One could expect roughly the same degree of compliance, at lower cost.

There are precedents for an approach that focuses on organizational rather than individual eligibility. For example, the Summer Food Service Program, which provides meals to children from needy areas during vacation months, is authorized for "areas in which poor economic conditions exist" (emphasis added). Area eligibility is then specified as one in which 50 percent of the children are eligible for free or reduced price meals under the school lunch and school breakfast programs. (12-1) This program implicitly recognizes the inherent organizational costs and social disruptiveness of singling children out on the basis of their poverty status. Moreover, in many places the cash value of the lunches undoubtedly equals the value of commodities distributed to families over the same period of time.

As well, the Emergency Food and Shelter Program, set up as part of P.L. 98-8 and later extended by P.L. 98-151 and P.L. 98-181, used a from of organizational eligibility for deciding how to disburse relief funds. Eligibile recipient agencies were private, non-profit, voluntary organizations (PVOs) that had been designated as qualified service organizations by a state agency or local administrative unit. The standards for qualification involved an assessment of a PVO's ability to provide emergency assistance. The PVO had to submit a certification verifying its intent to use funds for prescribed purposes.

Limitations on cheese distribution because of fears of market displacement may be unwarranted. In this section I have discussed issues arising from the need to limit demand on the assumption that the supply of commodities was limited. This limitation was established in May, 1983, when Secretary of Agriculture John Block cut back cheese allocations in part in response to pressures from dairy interests who claimed that commodity distributions were displacing market sales, and because of a reduction in stocks of "family size" surplus cheese distribution "units." Yet the degree and incidence of displacement has not been clearly established.

Even if there has been some displacement, it is not clear that the displacement effects are equally distributed throughout the nation. Indeed, it is more plausible that some specific markets might have been

affected, while others were not. Even if the Secretary wanted to protect commercial interests from adverse effects, it is not apparent why restrictions on distribution should take place throughout the entire nation if surplus stocks continue to exist and there is apparent need.

In every public policy questions arise as to who benefits and who is adversely affected. In the case of surplus commodity distribution, the Committee may want to ask what degree of adverse effects to dairy distributors (if any) may be acceptable in exchange for aiding the neediest members of society. Certainly more research is warranted on the subject before we can conclude that commercial interests are significantly, adversely and uniformly affected.

It should be noted that many states (e.g. Illinois, Washington) are making giant strides in converting large quantities of surplus cheese into household-size bricks within the twelve-and-a-half cents per pound allowance that USDA is willing to pay. This cheese is available to a state above and beyond its normal allocation. It should not be long before enough states are able to perform such conversions that the Secretary of Agriculture will again be confronted with concerns that free cheese is displacing sales. (13-2)

Issues of Equity

Significant problems have resulted from initial decisions to release surplus commodities through the states. These include the following:

1. People who live in adjacent communities, whose circumstances are similar, may have radically different access to commodities if they live in different states. (13-3)

2. They may also have substantially different probabilities of receiving commodities even if they have the same income. If one person lives in a state with an income standard of 130 percent of poverty, and another in a state with a standard of 150 percent, the second may have access to commodities and the other may not. If both have low incomes -- say, income at 100 percent of the poverty line, the first will have a greater chance than the second, because the pool of eligibles will be smaller.

3. Although 49 states distribute surplus commodities to households, not all areas of all states are covered. For example, Florida has no distribution in 15 of its 67 counties. Texas has no program in 10 counties due to a lack of distributing agents. Moreover, in some areas some states have only token coverage, and states vary in their commitments to extending coverage throughout their borders.

Thus, the following factors in state planning capacity, none of which can be attributed to individuals' characteristics, could account for whether people receive an equitable share of government commodities:

a) Whether or not state officials welcomed the program, ignored or tended to resist it.

b) Whether a network of food banks previously existed in the state, so that when the state sought distribution outlets they were available.

c) Whether the social welfare structure of the state, or region of the state, was supportive of community voluntary efforts to distribute goods to the poor, so that if community agencies did not exist in some areas, they could be encouraged to form.

d) Whether states seek to make all goods available to all citizens, or whether states divide available goods so that some areas get cheese, while others get butter or rice.

Over time, it would be possible to work concertedly to reduce the discrepancies in the changes that one would be able to participate in the commodity distribution program on an equal basis. It will be some time, however, before the amount of organizational energy available to support this program is even roughly dispersed throughout the country to insure access to surplus goods across the board.

The question might be raised whether these discrepancies are not simply characteristic of policy formation and implementation in the American federal system. After all, the premise of the federal system is to allow decentralization in policy design. While it is true to some extent that different state preferences and approaches to the problem of surplus commodity distribution reflect the same kind of decentralization in social policy that is observed in other welfare areas, in other respects this comparison is misleading. The availability and level of commitment of the voluntary sector is not a matter of public policy in the various states, but at best a matter of divergent political, cultural and social developments that have no basis in public policy and prior legislation.

The appropriateness of the comparison at the street level may also be questioned. Some organizations go to great lengths to insure that eligibles receive the same amount of food by withholding stocks until a single distribution can reach all parts of the state or city. However, because commodity distribution is not an entitlement program, receipt of commodities is conditioned by an individual's characteristics and propensities that are not ultimately matters of qualification or eligibility.

For example, when the Equal Opportunity Council in San Francisco distributes federal commodities through its primary distribution sites, it does so on short notice. The availability of commodities is not regularly advertised, and it is a matter of opportunism that some people receive commodities that week and others do not. There appear to be some distribution situations where the amount of food to distribute is less than the number of eligibles who would appear to claim it. Thus the "adequacy" of the amount available clearly becomes a function of defining how often and how regularly distributions will take place, and how well they are publicized.

(Insert)
to Renae Marlin, Candica Roper, and Nancy Wagman for their exemplary research assistance,

Footnotes

*Marc Thibodeau assisted in the preparation of this report. We are grateful to Alexandra Herton for her help in producing the document, and to Ed Stockwell for his comments on an earlier draft.

2-1 "Cheese Inventory of the Commodity Credit Corporation," Weekly Compilation of Presidential Documents, Vol. 17, No. 52, p.1398, December 28, 1981.

2-2 U.S., Federal Register, Vol. 46, No. 249, December 29, 1981 (Washington: GPO), p. 62882.

2-3 U.S., Federal Register, Vol. 47, No. 46, March 9, 1982 (Washington: GPO), p. 10068; U.S., Federal Register, Vol. 47, No. 115, June 15, 1982 (Washington: GPO),p. 25752; U.S., Federal Register, Vol. 47, No. 142, July 23, 1982 (Washington: GPO), p. 31905.

2-4 See Hearings on the Domestic Commodity Distribution and Food Assistance Act, Subcommittee on Nutrition, Committee on Agriculture, Nutrition and Forestry, U.S. Senate, 98th Congress, February 15, 1983; Hearings on the Emergency Food Assistance and Commodity Distribution Act of 1983, Subcommittee on Domestic Marketing, Consumer Relations and Nutrition, Committee on Agriculture, House of Representatives, 98th Congress, March 22, 1983.

2-5 Temporary Emergency Food Assistance Act of 1983, P.L. 98-8, Title II, 97 Stat. 35 & 36, March 24, 1983.

3-1 As cheese and butter have a value of approximately $1.50 per pound, an agency could expect to receive a maximum of $.075 per pound of food distributed.

3-2 U.S., Federal Register, Vol. 48, No. 81 (Washington: GPO), April 26, 1983, pp. 19004-016.

3-3 USDA, Food and Nutrition Service (monthly statistical summary of 5/7/84).

3-4 Supplemental Appropriations Bill, P.L. 98-8, Title I, 97 Stat. 27, March 24, 1983.

3-5 Assessments of the merit of these positions are found in Report by the Comptroller General: Improved Administration of Special Surplus Dairy Production Distribution Program Needed (Washington: GAO/RCED-84-58), March 14, 1984; Fifth Report by the Committee on Government Operations, "USDA's Cheese Distribution: A Good Program Gone Bad," H.R. No. 98-445, 98th Congress, October 27, 1983 (hereinafter cited as Government Operations Report); "Hunger in the Land of Plenty: A Report on Human Needs and Surplus Commodities," Report prepared by Representatives Eckart, Kaptur, Oakar and Oberstar, June 27, 1983 (hereinafter cited as Report on Human Needs).

3-6 See Amendment to the Temporary Emergency Food Assistance Act of 1983, P.O. 98-92, Sec. 2, 97 Stat. 608-612, September 2, 1983.

3-7 P.L. 98-92, Section 203B(c), 97 Stat. 610.

4-1 A similar provision governing USDA commodity distribution (except for "Section 6" foods under the National School Lunch Program) appears at 7 CFR pt. 250.6(1).

4-2 P.L. 98-92, Section 203C(a), 97 Stat. 610.

4-3 U.S., Federal Register, Vol. 48, No. 243, December 16, 1983 (Washington: GPO), pp. 55988-993.

5-1 One list of emergency food organizations that have stopped participating due to costs is found in Report on Human Needs, op. cit., p. 14.

5-2 See, for examples of this, Center for Budget and Policy Priorities, "Soup Lines and Food Baskets: A Survey of Increased Participation in Emergency Food Programs" (Washington, May 1983).

5-3 This CAP spends approximately $8000 a month on the distribution program and benefits from over $13,000 worth of volunteer labor. In FY 83, it received an average reimbursement of $6000 per month, a figure that will fall to $2000 a month in FY 1985.

5-4 This agency had actual costs of $50,000 as a result of its participation in FY 83 and was reimbursed $40,000. It expects to receive only $15,000 in reimbursement for FY 1985.

6-1 The SFFB has ceded its commodity distribution responsibilities to the city's Economic Opportunity Council.

7-1 However, Wisconsin has experienced an increase in volunteers this year as compared to FY 83.

7-2 Estimates from USDA, Food and Nutrition Service (monthly statistical summary of 5/7/84).

7-3 The FNS has calculated average costs of distribution for federal and state governments and local groups. See "An Assessment of Nutrition Programs Including Procedures Required to Reinstate Direct Commodity Distribution to Needy Households" (FNS, March 1983).

8-1 This was especially important for food banks that charge membership dues to individual members rather than a shared maintenance fee for member organizations. In several states, food banks raised their membership dues after they began distributing free federal commodities. In Florida, one food bank was de-certified from participating in TEFAP after a dues increase because state officials believed the raised fee represented an assessment for the free product distributed.

8-2 The federal government does, however, indirectly assist food banks through provisions of the tax code. First, food banks are recognized as tax exempt charitable organizations. Second, liberal deductions are allowed for corporations donating inventory and other income items to food banks. Pursuant to § 170 (e)(3) of the Tax Reform Act of 1976, a corporation may deduct its costs of the donated product (including any cost incurred in making the donation) plus one half of its normal gross profit on the product. This provision greatly stimulated the growth of food banks.

10-1 Cuts in state product allocations ran as high as 75 percent. A partial summary of the cutbacks can be found in Government Operations Report, op. cit., p. 10.

10-2 USDA, Food and Nutrition Service, "State Eligibility Criteria--TEFAP Worksheet," March 14, 1984.

12-1 7 CFR pt. 225.2.

13-1 Approximately 25 states have contracts for processing cheese or cutting it into usable sizes. Illinois recently became the first state to instantize non-fat dry milk.

13-2 To ensure that states do not "profit" for conversion at the expense of taking surplus processed cheese, the New England region of the USDA has prohibited cheddar disbursement to the states unless they take their full quota of processed cheese.

13-3 For example, residents of Trenton, NJ may receive commodities as long as their income does not exceed 185 percent of the poverty level while across the bridge in Philadelphia the cut-off level is 130 percent. Similarly, people in Kansas City, Kansas can receive food based on a 165 percent standard while those residing in Kansas City, Missouri do not qualify if their income exceeds 125 percent of the poverty level.

Iowa Department of Human Services

HOOVER BUILDING DES MOINES, IOWA 50319

TERRY E. BRANSTAD
GOVERNOR

Michael V. Reagen, Ph D
Commissioner

October 22, 1984

Vivian Gabor
House Select Committee on Hunger
House Annex #2
Room 507
Washington, D.C. 20515

Re: Temporary Emergency Food Assistance Programs

Dear Ms. Gabor:

I am enclosing the testimony you requested. The testimony describes the operation of the Temporary Emergency Food Assistance Program in Iowa as well as making suggestions for program modifications.

We thank you for the opportunity to share our experience with the program.

Sincerely,

Michael V. Reagen, Ph.D.
Commissioner

MVR/WAA/rk

IOWA COUNCIL ON HUMAN SERVICES

STATE OF IOWA

TESTIMONY

TEMPORARY EMERGENCY FOOD ASSISTANCE PROGRAM

PROPOSAL FOR

HOUSE SELECT COMMITTEE ON HUNGER

For further information regarding this testimony contact:

W.A. Armstrong, Chief
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Iowa Department of Human Services
Hoover State Office Building
Des Moines, Iowa 50319
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State of Iowa
Department of Human Services

October 1984

A. INTRODUCTION AND CONTENT SUMMARY

1. INTRODUCTION

This testimony is submitted to the U.S. House of Representatives Select Committee on Hunger to describe the operation of the Temporary Emergency Food Assistance Program (TEFAP) in the State of Iowa and to make suggestions for program modifications. The testimony is organized into five sections - this introduction and summary, a listing of key statistics for federal fiscal year 1984, a beginning to end description of the operation, a statement of five improvement suggestions, and an appendix including Iowa operating policies and procedures.

The Temporary Emergency Food Assistance Program is a low cost and important supplemental food source for needy citizens.

2. OPERATIONS SUMMARY

The Temporary Emergency Food Assistance Program has been an unqualified Iowa success. Since its inception in January 1982 under Executive Order of the President and continuation by Congress under P.L. 98-8 (The Jobs Bill) and P.L. 98-92 (The Dole Bill), Iowa has been an inovative leader in distributing surplus food to the needy.

Through September 1984, Iowa has distributed 34.4 million pounds of surplus food valued at $48.5 million at a cost of $1,105,400 or 3.2 cents per pound.

At its peak, 1.3 million pounds of cheese and 500,000 pounds of butter were distributed monthly to 185,000 households or almost 500,000 individuals.

Public and private sector cooperation is clearly a hallmark of Iowa's programs. Over 4,000 Iowan's donate between 19,000 and 25,000 volunteer hours each month to make the program work.

Local organizations - Area Aging, Community Action Agencies, churches, unions, municipal and county governments, Salvation Army Units, business, and others have formed a cohesive statewide distribution system which the Iowa Department of Human Services serves through its central distribution administrative unit, and coordinates through its district offices. Without "above and beyond the call" performance at every level from the Department to local agencies, to the volunteers, the Program could not have succeeded.

3. IOWA INITIATIVES

Iowa has successfully piloted many aspects of the Program and has a national reputation for inovation as well as effectiveness.

January 1982	-	Iowa piloted cheese distribution in the Waterloo and Dubuque Metro Areas organized by the Hawkeye Valley Area Agency on Aging.
February 1982	-	Iowa was one of the first states to begin statewide distribution of cheese.
February 1982	-	Iowa successfully piloted distribution of butter involving slicing and packaging at Waterloo, again through efforts of the Hawkeye Valley Area Agency on Aging.
September 1982	-	Iowa was one of the first states to begin statewide distribution of butter.
March 1983	-	Iowa successfully piloted assumption from USDA of responsibility for processing of bulk Cheddar into American pasteurized processed cheese and delivering of the finished product to Iowa's intrastate distribution system.
April 1983	-	Iowa succesfully piloted an arrangement with Rath Packing Company of Waterloo to slice and package Cheddar for distribution in Iowa which provided new jobs as well as cheese for the needy.

The Hawkeye Valley Area Agency on Aging deserves special recognition for their instrumental efforts in the pilot distributions and processing/slicing operations start up.

Figures for a recent six-month period (March through August 1984) clearly show that Iowa is not only effective, it is efficient. Of the 6.3 million pounds of surplus food provided for distribution, 99.5 percent was actually placed in the hands of needy recipients. Of the remaining 1/2 of a percent, most was undistributed due to broken packaging or suspicion of being out of condition; only 1/10 of one percent was unaccounted for and presumed lost or stolen prior to distribution to the needy.

4. PROGRAM MODIFICATION SUGGESTIONS

Iowa's success has not been without difficulty. There is still much room for improvement. Many improvements could be facilitated by changes in National Policy. Iowa's distribution efforts could be broadened and made more efficient with enactment of the following as National Policy:

Stability of National Policy: TEFAP began with the dual purposes of reducing the amount and cost of Federal Surplus Food in storage and providing direct food assistance to the Nation's needy. These purposes have been competing ever since to the detriment of program stability at the State and local levels. It is suggested that a National Surplus Food Distribution Policy be established which, as well as addressing the need to maintain a stable agricultural products market, also considers impacts on citizens in need of food assistance and stability of domestic surplus food distribution programs.

Program Funding: It is suggested that funding for State and local distribution expenses be increased to a level that would permit USDA to reimburse states at a rate of 6.5 cents per pound of food distributed and that states be allocated funds based upon the volume of food distributed.

Recipient Eligibility: It is suggested that USDA be encouraged to permit states broader latitude in fixing needy recipient eligibility guidelines.

Audit Standards: It is suggested that recently proposed audit standards be reconsidered and regulations more in keeping with the diversified and volunteer character of the program be adopted.

State Food Processing: It is suggested that USDA consider the encouragement of state assumption of food processing responsibilities. USDA policy, with regard to the relationship of bulk to processed allocation quantities, reimbursement rates, products available for state processing, and labeling must be adjusted to encourage and expand state processing.

Please turn to Section D of this testimony for a more complete description of and support for these suggestions.

B. PROGRAM DEFINING STATISTICS

For ease of reference, all pertinent statistical information defining the operation and financing of the Temporary Emergency Food Assistance Program in Iowa are presented in this section. To assure the closest possible tie to reality figures, unless otherwise noted, are for Federal Fiscal Year 1984 (October 1, 1983 through September 30, 1984). In some instances, figures for the month of September 1984 have been estimated and added to actual totals for the first eleven months of the period.

1. IOWA

In order for document users to place program data in perspective, a limited number of general information items (1980 census) about the state are presented:

- Iowa encompasses 55,965 square miles in the upper Midwest between the Mississippi and Missouri Rivers. Iowa's 99 counties range in area from 400 to 950 square miles and in population from 6,000 to 303,000 persons. Iowa's five largest cities are Des Moines (State Capital location) 191,000; Cedar Rapids 110,200; Davenport 103,200; Sioux City 82,000; and Waterloo 76,000.

- Iowa's population (1980 census) is as follows:

Total	* Urban	%	Rural	%
2,913,000	1,708,000	58.6	1,205,000	41.4

* Includes 124 communities of 2,500 population or more.

- 2,817,419 persons reside in 1,053,107 family and non-family households with an average size of 2.68 persons per household.

- Of this population 392,600 or 13.5 percent are 65 years of age or older.

- The total number of persons living in households with incomes below the poverty level (1980) is 286,200 or 9.8 percent.

- The total number of unemployed persons in the State according to figures released for July 1984 in 80,700.

- The median household income is $16,800; the mean income is $19,560 (1979 figures).

2. TEFAP DISTRIBUTION OPERATION

a. Quantities Distributed	Pounds	Value
Cheddar Cheese	8,230,660	$12,284,260
Processed Cheese	1,288,988	1,840,030
Butter	1,656,997	2,489,638
Flour	516,590	69,120
Cornmeal	378,655	59,714
Rice	139,812	26,508
Honey	503,628	397,866
Dry Milk	704,366	753,672
Annual Total	13,419,696	$17,920,808
Average per month	1,118,308	$ 1,493,401
Average per site per month	1,633	$ 2,180
Range per site per month (approximate)	600 to 8,000	N.A.

b. Statewide Delivery

- The number of Statewide semi-truck loads delivered per year is 480, with an average of 40 loads delivered per month.
- The average truck load quantity is 27,958 pounds.
- The average cost per truck load delivered is $600.
- Off-load truck product drops total 1,272 per year (106 per month) and average 2.6 drops per truck per month.

c. Recipient distribution sites operated in Iowa total 685, ranging from one to 27 per county for an average of seven sites per county.

d. Volunteer hours total 231,552 annually for a monthly average of 19,296.

e. The annual value of donated hours computed at the minimum wage of $3.35 per hour totals $775,699.

3. RECIPIENT DATA

a. Potential Recipients

Based upon 1979 income data, it is estimated that approximately 25.6 percent of Iowa's population or 721,260 persons reside in households with incomes at or below 185 percent of the poverty level and are thus eligible for food assistance under the Temporary Emergency Food Assistance Program.

b. Population Served

The average number of households served per month is 143,800; the actual range of number of households served per month is 86,300 to 170,700. The low end of this range occurred during a USDA imposed allocation restriction period. The latest monthly number of households served (September 1984) is 120,000.

Estimated average currently monthly number of total recipients served per month (2.68 persons per household times 143,800 households) is 385,240. The estimated monthly range of recipients served is 231,300 to 457,500.

The average number of pounds of food provided to recipient households per month is 7.8 pounds, or 93.8 pounds per year.

4. DISTRIBUTION EFFECTIVENESS (Figures for Six-Month Period March through August 1984)

	Quantity	Percent
Total pounds distributed	6,288,876	100.00%
Pounds provided to eligible recipients	6,255,635	99.46%
Pounds lost (Theft or inventory error)	6,176	.10%
Pounds known to be stolen	325	.01%
Pounds destroyed (out of-condition, broken packages)	26,740	.43%
Total pounds lost, stolen, destroyed	33,241	.54%

5. RECIPIENT ELIGIBILITY REVIEWS

Household eligibility determinations verified per month was approximately 2,300; this equates to approximately 2 percent of the total households served.

The percent of total households verified found to be ineligible or issued excess foods was seven percent.

The most common issuance errors are: Number of members in household erroneously stated, amount of income erroneously stated, and recipient households obtained food from more than one distribution site during a month.

During the year, 437 referrals for investigation of suspected fraudulent obtainment of surplus food were made to the Inspector General Division of the Department. Most involved less than twenty dollars' worth of food for which, in many cases, recoupment actions had already been initiated by field operations units of the Department. Ten investigations were conducted by the Inspector General, none of which have led to indictment to date.

6. CHEDDAR SLICING AND DISTRIBUTION

a. Slicing

1. Bulk Cheddar received *	8,898,727	
2. Bulk Cheddar inventory remaining on October 1, 1984	(277,080)	
3. Bulk Cheddar Production	8,621,647	100.00%
4. Moldy block and slicing scrap salvage	(814,472)	9.4%
5. Slicing scrap loss/cut block variance	(7,321)	.1%
6. Sliced Cheddar produced	7,799,854	90.5 %

* This amount does not include bulk Cheddar cheese received by Iowa, but returned to USDA for disposal due to unacceptable condition.

Uncuttable moldy blocks and slicing scrap salvage is shipped to another company under contract to Iowa for production of Pasteurized Processed American Cheese which is returned and distributed.

b. Distribution

1. Beginning balance of cut Cheddar	1,656,951
2. Fiscal year production	7,799,854
3. Available for distribution	9,456,805
4. Distributed to households	8,230,660
5. Lost, stolen, or destroyed	44,105
6. Year-end balance	1,182,040

Distributions through January 1985 are projected to reduce the month end inventory to approximately 30,000 pounds.

7. FEDERAL FISCAL YEAR 1984 FINANCIAL SUMMARY

a. Income

· Federal fiscal year 1984 Iowa allocation		474,000
· Cheese processing		
Beginning balance	$ 217,800	
Fiscal year reimbursement	1,175,100	1,392,900
· State appropriation (Chicken Antitrust Settlement)		54,200
· Total funds available		$1,921,100

b. Processing Expenditures

· Processing, Slicing	$ 842,500	
· Transportation	79,500	
· Misc. Incidentals	11,300	
· Administration *	0	933,300 (10¢ per pound of cheese processed)

c. Distribution Expenditures

			$/Pound
· Statewide storage	$ 126,400		.0094
· Transportation	198,900		.0148
· Administration *	12,500		.0009
· Miscellaneous	1,200		.0001
· Total		$339,000	.0252
· Local distribution		329,700	.0246
· Total distribution expenditures		$668,700	.0498

* Majority of central administrative costs not charged to the program during the period.

d. Summary

Income		
Beginning balance	$ 217,800	
FY '84 funding	1,703,300	
Total		$1,921,100
Expenditures		
Processing	$ 933,300	
Distribution	668,700	
Total		1,602,200
Ending balance		$ 319,100

8. FEDERAL FISCAL YEAR 1985 PROJECTED BUDGET

a. Income

Beginning balance	$ 319,100	
Iowa allocation	490,000	
Processing	632,000	
Total		$1,441,100

b. Expenditures

Processing		
Transportation	$ 37,800	
Cutting	454,500	
Processing	18,600	
Miscellaneous	10,000	
Administration	0	
Total		$ 520,900
Statewide Distribution		
Storage	$ 100,000	
Transportation	187,800	
Administration	137,700	
Miscellaneous	20,000	
Total		$ 445,500
Local Distribution		348,600
Total Expenditures		$1,315,000

c. Projected End Balance $ 126,100

d. Based upon a total anticipated distribution of 12,261,000 pounds of food, distribution costs are anticipated to increase to 6.5 cents per pound.

C. PROGRAM OPERATING PROCEDURES

1. INTRODUCTION/SUMMARY

This section describes the Iowa TEFAP distribution system from the point surplus products are obtained from USDA to their being placed in the hands of needy recipients.

a. Administrative Responsibility The program is administered and coordinated by the Iowa Department of Human Services, Bureau of Property Management. Within the Bureau, staff assigned to the program include a program administrator, a distribution manager, a field auditor, and secretary.

b. Statewide Network/Division of Responsibility The Property Management Bureau Unit is responsible for overall program policy and operations coordination, federal liaison and statewide operations including ordering, warehousing, shipping and state processing.
Local operations are the responsibility of eight District Coordinators, regular employees of the Community Services Division of the Department whose duties were expanded to include TEFAP distribution coordination. No additional staff was added at the field level to operate this program. Actual distributions are performed by local volunteer agencies, organizations, and individuals.

c. Product Flow Summary Products are ordered monthly from USDA against Iowa's quarterly allocation or in bulk for processing. Products are delivered to the State's central staging warehouse in Waterloo by federal contract carrier or by the State contract carrier. District Coordinators place monthly orders in accord with quantity and product availability directives issued by Property Management. District orders are reduced to dispatchir orders sent monthly to the State contract statewide distribution center (two districts are delivered each week).

The District Coordinator arranges for local agency volunteers to meet the truck at the designated drop site for unloading and transport to satellite distribution points.

Distribution generally is completed in one or two days. Recipients or their proxies arrive at the site, fill out a Declaratory Statement which is verified by a volunteer, and are provided their product allotment by another volunteer. In limited instances, deliveries to homebound recipients are made by volunteers.

Verification of recipient eligibility and propriety of issuance is the responsibility of the District Coordinator. A small sampling of issuances are reviewed each month. Recoupment actions are instituted in the field when erroneous issuances are found.

2. PRODUCT ORDERING AND DELIVERY FROM THE FEDERAL SYSTEM TO IOWA

A. Liaison Iowa is within the USDA Mountain Plains Region. The federal liaison for TEFAP operations is the Food and Nutrition Service Regional Office (FNSRO) located in Denver, Colorado.

b. Allocation Prior to the beginning of each federal quarter Iowa is notified by the FNSRO of its allocation of TEFAP product quantities for the period. With the exception of bulk products for state processing, quantities are insufficient for full statewide monthly distribution needs. The Bureau distributes the limited products among eight state districts such that each in its turn receives a second product as part of its distribution. The first product (cut Cheddar cheese) is available in sufficient quantity due to state processing, to serve all monthly district needs. Under the rotating system each district receives eventually all limited products (butter, rice, cornmeal, flour, honey, dry milk) along with cheese.

c. State Ordering Process Iowa prepares requisitions based on quarterly allocations and projected monthly needs based on distribution history, sixty (60) days in advance of the two week delivery period.

Orders on Form FNS-52 are prepared by Iowa, forwarded to FNSRO in Denver, Colorado. FNS officials approve and transmit state orders via computer terminal to Commodity Credit Corporation (CCC) officials in Kansas City, Missouri.

CCC officials process state orders and arranges for release of product at government contracted warehouses for shipping.

Currently Iowa takes title to the bulk Cheddar in 40 pound blocks at the government contracted warehouse (usually in Dubuque, Iowa) upon release by CCC and arranges for shipping to the state processor at state expense.

All other allocated products which are provided in limited supply such as butter, flour, cornmeal, dry instant milk, rice and honey are released by CCC and transported to Iowa's central staging warehouse in Waterloo at federal expense.

d. Warehousing The State of Iowa currently contracts for warehousing services of all TEFAP commodities with the same company which holds the contract for slicing Cheddar cheese - Rath Packing Company.

This is a unique situation which allows for economics in transportation and storage of product.

USDA ships all TEFAP commodities to our contracted warehouse at federal expense except for the Cheddar cheese.

Bulk and sliced Cheddar cheese are warehoused by Rath without charge for 45 days. Under this arrangement, other storage costs are as follows:

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	1st Month (includes in/out handling)	Subsequent Months
Dry Storage	$1.00 cwt	25¢ cwt
Cooler Storage	$1.00 cwt	45¢ cwt
Freezer Storage	$1.20 cwt	60¢ cwt

3. STATE PROCESSING OF BULK PRODUCTS

Iowa was the first state in the nation to process cheese under a state contract as an alternative to reliance upon the federal system of supply. Iowa's pilot of state processing was soon accepted as a national USDA policy; bulk dry milk was later made available for state processing. Iowa has also petitioned the USDA (without success) for release of bulk butter for state processing.

a. Bulk Cheddar Cheese There is no federal quota on bulk products for processing. Iowa may, and does, order sufficient quantities of bulk Cheddar in 40 pound blocks for slicing or 500 pound barrels for processing. Iowa is currently taking title monthly to 300 to 850 thousand pound lots of 40 pound blocks of Cheddar at federal contract warehouses in Dubuque, Iowa. Shipment from Dubuque to Rath Packing Company in Waterloo is arranged and paid for by the State.

Deliveries in 40,000 pound semi-truck load units are accepted at the Rath facility and placed in temporary cold storage. Prior to delivery, the age and condition of the Cheddar is reviewed by State officials.

Rath Packing employs approximately eight workers to handle, slice and package the cheese. Plant capacity exceeds 65,000 pounds per day.

The processing run begins when the cardboard case is stripped from each 40 pound block; then the block is inspected for excess mold, the wrapping stripped, and any surface mold trimmed. Mold-free blocks are transferred by conveyor from the stripping and trimming operation into a separate room for slicing and packaging. Moldy trim loss is held for sale, generally as fish bait. Moldy blocks are accumulated into truck load lots and shipped to the Tate Cheese Company in southern Illinois for processing. Moldy block and trim loss generally amounts to approximately 2 percent for lots less than 12 months old - the older the lots, the higher proportion of blocks unsuitable for slicing.

Mold-free blocks are sliced into five-pound portions in a two-stage hydraulic press. Because blocks are never precisely 40 pounds, each block yields one to two pounds of scrap. The five-pound blocks are placed in a moving line of continuous cellophane pouches. Slicing scrap slabs are weighed into five-pound portions and also placed in the pouches; only 1 percent of the scrap is unsuitable for packaging. It is accumulated and sold for other than human consumption, i.e. fish bait.

The pouch line moves the product into the packing machine which evacuates the pouch and seals the top of the package with another continuously fed cellophane roll. The sealed packages are then moved through a shrinking tunnel which further tightens the wrapping. The five-pound portions are inspected for proper seal ("leakers" are pulled and run through the process again) and then placed in the cases in which the 40 pound block

was shipped. The case is sealed, date and lot coded, and placed in temporary storage to await transport to distribution sites. Sliced Cheddar is transported on a first in/first out basis - most is distributed within 30 days of slicing.

Blocks too moldy to cut are accumulated into truck load lots and shipped to Tate Cheese Company in southern Illinois. At Tate, the blocks are trimmed of mold and processed into five-pound portions of American pasteurized processed cheese. The processed cheese is return shipped to Rath and factored into our distribution system.

Due to the number of elderly and small households eligible under our guidelines, and realistic consumption of products by these families in a month's time, we have considered reducing the packaged Cheddar from the present five-pound block to 2½ pounds. However, after investigating the cost associated with this and the realization of limited funds, it was decided to continue with the five-pound block.

Funds for slicing and processing of cheese are provided by USDA at the rate of 12½¢ per pound. Funds accumulated over and above processing and transportation costs are used to supplement Dole Bill Grant funds in the payment of transportation, storage and local field expense for total program operation.

It has been our experience in the Cheddar slicing operation that the block cheddar provided by USDA must be no more than one year old, due to mold problems. We did experience a severe problem with the mold in the Spring of 1984. However, since that time, USDA has made a special effort to provide a young product for slicing.

We also had a problem with the loose wrap in the packaging process, which contributed to acceleration of mold. Since that time, our contractor has overcome this fault by equipment changes which improved the seal.

c. Dry Milk Processing - In October 1983 USDA-FNS announced that the federal government would reimburse states 14 cents per pound to instantize, fortify and repackage bulk nonfat dry milk. Iowa prepared contracts, obtained FNS approval and solicited bids for processing on two separate occasions (February and April 1984). The lowest bidder proposed to process and deliver to Iowa's central warehouse at the rate of 15.4 cents per pound. Subsequent negotiations aimed at reducing the rate to an economically acceptable level were unsuccessful.

To date Iowa's requests to increase the reimbursement rate for instantizing to a realistic level and a further proposal for USDA to consider permitting distribution of non-instantized dry milk as a cooking product, fixing a realistic reimbursement rate for repackaging only, have not been accepted.

It is our understanding that most other states have had experiences similar to Iowa; bids received by states across the nation have proven too high for most states to contract for dry milk processing.

Only two states - Minnesota and Illinois - are currently processing dry milk. Minnesota has been processing for approximately three months. They had originally intended to process 900,000 pounds per month, but contracted initially for only 150,000 pounds which will increase to approximately 500,000 pounds for the month of December due to the limited capacity of the Wisconsin processor with whom they contracted.

Minnesota's costs are as follows:

Processing	$0.155/lb.
Delivery to the State Staging Warehouse	0.0175/lb.
Intermediate Storage and In-State Transportation to local distribution drop-sites	0.02/lb.
Total Cost	0.1925/lb.
Federal Reimbrusement	(0.14)/lb.
Deficit	$0.0525/lb.

Minnesota is subsidizing the deficit dry milk processing storage and transportation cost through community service block grant funds and through funds surplus from their cheese slicing per pound reimbursement.

Illinois contracts with a commodity broker to supply processed dry milk to their central warehouses and larger agencies at the rate of 17.4 cents per pound. Illinois is supplementing the 14 cents per pound dry milk reimbursement with surplus cheese slicing reimbursement funds.

The financial condition of the State of Iowa has limited Iowa's ability to subsidize an expanded dry milk distribution through processing. Earlier expectation of using cheese slicing reimbursement surpluses to offset dry milk deficits are now projected to be unworkable. The offset is no longer feasible due to USDA's recent policy decision to require states to accept an American Pasteurized Cheese allocation as a pre-requisite to permitting the state to slice or process bulk Cheddar. At the reduced slicing volume, slicing surplus funds will be inadequate to subsidize dry milk processing while maintaining the subsidy to local distribution agencies.

Iowa's projections of dry milk processing costs (based upon our earlier bids, experiences of surrounding states, and current storage and transportation costs) are as follows:

Processing (includes delivery to Iowa's central staging warehouse in Waterloo)	$0.155/lb.
Intermediate storage	0.01 /lb.
Instate transportation to local distribution drop sites	0.0225/lb.
Total	$0.1875/lb.

This estimate does not include any additional cost for central contract administration, nor local distribution efforts under the assumption that the present system can manage the additional volume. It is also assumed that intermediate storage will be for no longer than one month; storage carry overs could add as much as ½ cents per pound to the overall cost.

If, in the future, USDA policy changes or the availability of state subsidizing funds make dry milk processing financially feasible, it is projected that Iowa could distribute 500,000 pounds per month or 6,000,000 pounds per year to the needy.

d. Butter Processing Since the inception of the State processing system for cheese, and more recently, dry milk, Iowa has petitioned the USDA to add butter to the list of bulk products available for state processing.

Iowa's requests of USDA to release bulk butter for processing (slicing, packaging and labeling) and fix a reasonable reimbursement rate have been denied.

Iowa's allocation of butter is 115,000 pounds per month. It is projected that our actual statewide distribution need is 500,000 pounds per month. This level would assure each needy household member one pound of butter per month up to a maximum of four pounds per household per month.

Tentative estimates of state processing and associated costs are as follows:

Slicing, packaging, and labeling	8-10¢/lb.
Transportation to staging warehouse	1-1.5¢/lb.
Intermediate storage	1-1.25¢/lb.
Statewide transportation to distribution sites	2.25-2.50¢/lb.
Total	12.25 - 15.25¢/lb.

We would welcome the opportunity to increase the distribution of butter to Iowa's needy citizens through state processing supported by a reasonable federal reimbursement rate.

4. STATE DISTRIBUTION

From the inception of the Temporary Emergency Food Assistance Program, Iowa's State Plan for distribution was developed within the administrative framework of our DHS Community Service Division. The Community Service Division is organized into eight (8) separate districts, each with the same approximate population density. Each DHS District provides one staff person to coordinate the ordering of food from the central administrative commodity unit and the development of volunteer staffs to man the local distribution sites of local agencies and organizations under contract with the Department.

Program procedures manual material, for District staff and volunteer staff, and administrative rules explaining the program to the public were established and published early in the program's life to insure consistent application of federal and state guidelines.

Central administration schedules distribution in two districts each week to avoid placing an undue burden on the trucking firm under contract to deliver to drop sites.

Trucks deliver to approximately two drop sites per county and products are further distributed by volunteers to some 685 distribution sites manned by volunteers.

5. LOCAL OPERATIONS

DHS District Surplus Commodity Coordinators have negotiated contracts with approximately 170 local organizations such as Community Action Agencies, emergency feeding organizations, churches, food banks, and food pantries to distribute TEFAP commodities in accordance with established federal guidelines and state plans approved by FNS officials.

It is the responsibility of the eight DHS District Surplus Coordinators to develop and coordinate the ongoing network of volunteer agencies and individuals that distribute federal surplus foods each month to eligible residents within their respective districts. Further responsibilities include supervision of private agency participation, volunteer recruitment and training, interpretation of state and federal guidelines, media liaison, authorization and scheduling of local deliveries, handle client complaints, maintain distribution records, approval of local agency reimbursement requests, direct quality control and review process.

The volunteer site managers are responsible for preparing their estimate of product needs and forwarding their orders to the District Coordinator at least two weeks in advance of the distribution date.

District Coordinators consolidate distribution site orders in such a manner as to provide economical loads and schedule delivery to coincide with distribution dates. Since there is very little storage available at the local level and limited funds, the timing of delivery on the date of distribution is crucial. District Surplus Food Coordinators advise the public of distribution dates, times, and locations, at least one week in advance through local news media. Every effort is made to keep local distribution sites and dates constant. Recipients have come to depend upon the regularity of the program.

Following each monthly distribution, site managers provide distribution reports to the District Coordinator including site listing, pounds of commodity received, pounds distributed to households, amount distributed to organizations, amount lost, stolen, spoiled, number of households served, individuals served, estimate of volunteer hours, and amount of product distributed to emergency feeding organizations, Correction and Detention facilities, and Charitable Institutions. Site managers and local distribution workers are essentially all volunteers.

6. CENTRAL ADMINISTRATION

Supervising of Iowa's TEFAP lies with the Iowa Department of Human Services designated by Governor Terry Branstad as the distributing agency for Iowa.

DHS Commissioner Michael V. Reagen assigned this program responsibility to DHS's Division of Organizational Planning, Bureau of Property Management.

Currently, there are three full-time and one half-time staff persons assigned to this program at the central State level with higher level supervisory staff devoting a portion of their time to this program.

Central administrative activities include development of policy, procedures, manual material, administrative rules, State Plan for distribution, liaison to FNS officials, procurement of commodities, program monitoring, quality control, audits and public relations.

In order to meet monitoring and auditing requirements under the Dole Bill, we will be utilizing one of TEFAP staff persons to travel and monitor some 685 distribution sites and review local distributing agency records to verify the 5 percent limitation on reimbursement to local distribution agencies. Public Law 98-92 provides that states shall not reimburse local distribution agencies in excess of five percent of the value of commodities distributed.

Iowa provides for a quality control check by verification checks on approximately 2 percent of applicants. Apparent violations noted by reviewers or anonymous reports of violations are investigated by the Inspector General's Division of the Department.

Cases are recommended for prosecution by the Attorney General's Office when determined appropriate.

7. ELIGIBILITY CRITERIA

Iowa has based household eligibility on family size, income and residence. While we do not require legal Iowa residency, recipients are required to live in Iowa.

Household size is determined by number of people living in a dwelling, excluding boarders.

Income eligibility is fixed at 185 percent of the poverty level income published by the Office of Management and Budget. All gross earned or unearned income is counted in determining eligibility. Adjusted gross self-employment income is to be averaged over a twelve month period. Income received from interest and dividends is to be reported for the immediate past twelve months, and the monthly average computed. The computed average is included as monthly income.

After the households gross earned or unearned income is determined, it then is compared to Iowa Department of Human Services' income requirement of 185 percent of poverty level income as set by the Office of Management and Budget (OMB). (See Appendix 1a, Page 8).

Applicants sign a Declaratory Statement of Eligibility provided to them at the distribution site.

This document declares household size, household income, residence, recipient understanding of liability of false statements, prohibition against exchange or sale of commodities received, verification cooperative agreement, and appeal procedures. (See Appendix 1b, Page 2).

D. PROGRAM MODIFICATION SUGGESTIONS

Iowa's success in distributing surplus food to needy persons has not been achieved without difficulty. Many of the problems stem from National USDA policy. In our striving to improve, all states efforts could be broadened and made more efficient with acceptance of the following National Policy Modifications:

1. STABILITY OF NATIONAL POLICY

The TEFAP Program began as an effort to deal with record surpluses of food removed from the market place and placed in storage under Federal Agricultural Price Support Programs. In 1981 much of the food in storage was in danger of spoiling. TEFAP began not as a food assistance program for the needy, but as a means of addressing an unpleasant side effect of Agricultural Market Stabilization Programs. At the national level, the fact that the food was going to the needy was secondary, but at the state and local levels the market stability component of the program's purpose from the outset was secondary to providing food to the needy. It is suggested that national decision makers assess the impact of any decisions affecting the availability of surpluses for domestic distribution upon those in need of food assistance and the operation at state and local food distribution programs.

2. PROGRAM FUNDING

Current funding allocated to states under P.L. 98-89 is less than adequate and unequally allotted among the states. It is suggested that funding for state and local distribution expenses be increased to a level that would permit USDA to reimburse states at a rate of 6.5 cents per pound of food distributed and that states be allocated funds based on the quantity of food distributed by each state during a previous period such as the previous federal fiscal year.

During Fiscal Year 1984, Iowa distributed 13,419,696 pounds of food. To pay state and local storage and distribution expenses, Iowa was allocated $474,000 or 3.5 cents per pound. Iowa actually expended $668,700 for state and local storage and distribution or 5 cents per pound. If the true cost of state and local distribution including the value of volunteers services and time were calculated, it would be far in excess of 10¢ per pound particularly considering the value of 231,552 volunteer hours donated at the local level and the value of central administrative time devoted to, but not charged to the program.

For fiscal year 1984, Iowa is projecting a distribution of 12,261,000 pounds of food at a cost of $794,100 or 6.5 cents per pound. While it is anticipated that local costs will continue to be substantially reduced due to continued use of volunteers, statewide and local transportation and

storage expenses have increased. In addition, other state programs shall no longer be expected to subsidize the expense of central TEFAP administration. As a cost effective alternative to foreign disposal or continued costly federal storage and eventual spoilage of surplus food, it is recommended that Congress support the entire cost of state and local distribution of surplus food to the Nation's needy families.

3. RECIPIENT ELIGIBILITY

It is suggested that states be permitted broader latitude in fixing needy recipients eligibility guidelines for the Temporary Emergency Food Assistance Program. Iowa's base standard requires that a household's income be at or below the standard for reduced price school lunch eligibility (185 percent of OMB Poverty Income Guidelines). Since the inception of the Program, Iowa has permitted potential recipients to exclude Social Security, Disability, and other similar income sources upon which many elderly persons depend on as their sole support. The intent of these exclusions was to assure that all elderly persons on fixed incomes would be eligible for the Program. USDA has forced Iowa to drop these exclusions. Iowa, on behalf of its substantial elderly population, has petitioned USDA for reinstatement of these exclusions, without success.

4. AUDIT STANDARDS

Recently proposed TEFAP audit requirements are excessive and costly for states to implement. It is recommended that the proposal be withdrawn and substitute regulations more in keeping with the volunteer character of the program be established. Substitute regulations should consider the extensive dependence of states upon donated resources and volunteers, particularly at the local distribution level and should be applied to states on the basis of performance history. It is further suggested that cost-effectiveness be a major element in determining the extent of audit to be required in each state and the single audit concept be applied as that one means of best utilizing the limited funds available for this purpose.

5. STATE PROCESSING

Iowa has a long and successful history of state processing of bulk federal surplus cheese. Recent policy directives bring into question Iowa's ability to continue processing. Acceptance of the following recommendations would assure the continued success of Iowa's processing system:

a. Permit states to accept unprocessed bulk products for processing without regard for state acceptance of rejection of the quotas of USDA processed foods allocated to the state. Iowa has refused its USDA allocation of processed cheese for over a year in favor of distribution of sliced Cheddar supplied through a state contracted processor. With the second quarter of FY 85, USDA shall require Iowa to begin accepting its USDA allocation of processed cheese as a prerequisite to obtaining bulk Cheddar for processing. This requirement has the potential for reducing state processing quantities to an uneconomical level and ultimately reducing the flow of cheese to Iowa's needy.

b. Reimbursement rates for state processing are based upon USDA contract costs for similar services. But in fixing the rate, USDA chooses NOT to consider their costs of shipping and storing the bulk and finished product. In short, USDA expects states to ship, process and store for the same cost that USDA pays for processing only. It is recommended that USDA be directed to establish a state processing per pound reimbursement rate based upon their true and complete cost of providing the finished product to states for distribution. True costs would include not only processing, but shipping to and from the processor, intermediate storage, and shipment to the states.

For example, USDA has established a reimbursement rate for instantizing, fortifying, and repackaging nonfat dry milk of 14 cents per pound. This is consistant with recent USDA offers for processing under the Federal System (13.99 cents per pound), but does not consider the cost of transportation and temporary storage. USDA reimbursement rates for states should be based upon USDA's entire cost as follows:

a.	Transportation of bulk product from federal storage to the processor	unknown
b.	Processing and repacking	14¢
c.	Transportation of finished product to federal storage	unknown
d.	Temporary federal storage of the finished product	unknown
e.	Transportation of the finished product to a state for distribution	unknown
f.	Total	14¢ plus the cost of storage and transportation

It is estimated that USDA's actual cost of transporting and storing finished products is between 4 and 5 cents per pound, making the state reimbursement rate a more reasonable 18 to 19 cents per pound.

c. It is suggested that USDA be encouraged to add butter and other surplus products to the list of bulk products (now including only cheese and dry milk) available for state processing, and, in so doing, establish a reasonable reimbursement rate based upon USDA transportation, processing, and storage costs for the product.

d. It is suggested that USDA be encouraged to waive internal labeling requirements for states with distribution programs evidencing minimal instances of fraud or abuse and inadequate internal controls.

Iowa has been distributing Cheddar cheese sliced under a state contract since March 1983, without an internal label upon each five-pound package During this period, prerecipient distribution loss due to theft or inventory error has been approximately 1/10 of one percent. Quality control procedures confirm that approximately 93 percent of the food distributed to recipients is done so in accord with established and approved eligibility guidelines. Where alleged fraud or abuse is detected, recoupment actions are attempted with some success. The vigor with which recoupment actions are pursued is tempered by the fact that the action rarely involves more than 20 dollars' worth of food. (A five-pound block of cheese is worth $7.47; a five-pound bag of flour - $0.67). Labeling would not have improved our recoupment efforts.

It is anticipated that internal labeling would add approximately $0.005 per pound to the state processing cost or if labeling had been required during FY 84, it would have added $39,000 to the cost of state cheese slicing.

Labeling is simply not cost effective. To require an added state expense of $39,000 with little or no expectation of benefits is unwarranted. Large scale thefts, at which the labeling requirement is directed, simply are not a problem in Iowa.

E. APPENDIX

The appendixes to this testimony include:

1. Department of Human Services Employee Manual Sections providing policy and procedures instructions to staff workers and volunteers:

   a. Employees' Manual Title VII-U "Federal Surplus Food Program" (TEFAP)

   b. Employees' Manual Title VII-U-Appendix "Federal Surplus Food Program Appendix"

   c. Employees' Manual Title VII-U(1) "Food Handling and Storage"

2. Detailed statistical data concerning TEFAP operations in Iowa's 99 counties and eight Department of Human Services' Districts:

   a. Total and individual product quantities of TEFAP food distributed in each county.

   b. Statewide and district TEFAP products distributed.

   c. Truck loads, drops and distribution sites by districts.

   d. TEFAP distribution sites per county.

   e. Average amount of volunteer hours donated for TEFAP per district.

3. Documentation of the Department's comments and protests concerning proposed and enacted USDA Regulations and Policy:

   a. February 29, 1984 — Comments to USDA upon TEFAP "interim" regulations.

   b. April 11, 1984 — Appeal to Secretary Block, Regional disapproval of Iowa's distribution plan and Administrator Robert E. Leard's response upholding the Regional decision. (This action forced Iowa to revise its TEFAP eligibility guidelines).

   c. August 24, 1984 — Submission to Representative Cooper Evans requesting assistance of the Congressman's office in convincing USDA to change its policies to encourage rather than hamper state processing efforts.

   d. August 30, 1984 — Comments to USDA objecting to elements of proposed TEFAP Audit Regulations.

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